



Technology Committee Meeting

Thursday, July 1, 2004

9:00 a.m.

Hotel Roanoke and Conference Center

Roanoke, Virginia

APPEARANCES:

The Honorable Clarke N. Hogan, Chairman

The Honorable Kathy J. Byron, Southside Vice Chairman

Mr. H. Ronnie Montgomery

Mr. Edward Owens

The Honorable William C. Wampler, Jr.

The Honorable Thomas C. Wright, Jr.

COMMISSION STAFF:

Mr. Carthan F. Currin, III - Executive Director

Mr. Ned Stephenson - Director of Strategic Investments

Mr. Timothy J. Pfohl - Grants Program Administration Manager

Ms. Stephane Wass - Director of Finance

Ms. Britt Nelson - Grants Program Administrator - Southside Virginia

Ms. Sara Griffith - Grants Program Administrator - Southwest Virginia

OFFICE OF THE ATTORNEY GENERAL:

Mr. Frank Ferguson, Sr. Assistant Attorney General

DELEGATE HOGAN: Good morning, we're lacking a quorum, and we will be for about twenty-five minutes, so why don't we just go ahead and get started? We can't approve the minutes yet, so let's go ahead and hear from folks from Southwest, Mr. Skinner and Larry Carr, in some appropriate order, if you all want to spend ten or twelve minutes a piece.

CRANE-SNEAD & ASSOCIATES, INC.

4914 Fitzhugh Avenue, Suite 203

Richmond, Virginia 23230

Tel. No. (804) 355-4335

1 MR. FLANARY: I'm Ron Flanary, I'm the Director of the
2 Lenowisco Planning District Commission, and my colleague, Executive Director, Skip
3 Skinner, and he's the project leader, and if you have any tough questions, I would defer
4 them to Skip, and we'll try to go through this. Then we'll finish up the presentation with
5 Mr. Kelly from BVU and Larry Carr from the Cumberland Plateau Planning District.

6 Briefly, this is the structure we chose to launch our broadband in our service
7 area - Lee, Wise, Scott Counties and the City of Norton. Funding agencies, that's
8 principally the Tobacco Commission, but that includes funds from the Center of
9 Innovative Technology. We have some funds from a state agency, we work with the
10 Cumberland Plateau, and also a small amount from the Appalachia Regional
11 Commission, and a small amount of local funds. The Planning District Commission,
12 which is the political subdivision like twenty others in the Commonwealth, our Board is
13 basically the financial administrator. We created an overlay private non-profit and same
14 Board, same staff and same organization. That is Lenowisco, Incorporated. Lenowisco,
15 Inc. actually owns the asset and the broadband network and the electronics and the nuts
16 and bolts. We subcontract with a firm who has been a partner with us since we began,
17 and they have a technical and operation manager, Mr. Paul Elswick, who is a principal of
18 the firm, and he is here with us today. We used a concept called ADSS Cable, and that
19 was installed by our local power company co-op. We worked a deal with the co-op, and
20 they serve Lee County and a portion of Scott County, and that was to help keep our costs
21 down. We used the ADSS and the communication specialist to install the
22 telecommunications contract. Basically, this is the network we have constructed now, and
23 you can follow the red dot. This first phase is about fifteen miles that extended from our
24 office where the network operator center is in Duffield, about fifteen miles to the Town of
25 Big Stone Gap. Last summer in Farmville the Technology Committee approved 1.87
26 million dollars for the sections we see here, which are in green and yellow, and this
27 comes across into Wallens Creek and Jonesville where Ronnie Montgomery lives. Then,
28 back up here into Ben Hur over into what we call Pocket, where there is a strategic link
29 that I will mention in a moment, and then through Pennington Gap, back to Big Stone
30 Gap. There's a spur that goes to the Town of Appalachia. There's an important link that
31 runs through the Powell Valley and goes up to the City of Norton and the Town of Wise.
32 On the way we're picking up some important customers, including Mountain Empire
33 Community College and the University of Virginia's College at Wise and several other
34 important clients.

35 Connectivity, there are a lot of concerns that the Commission has had about
36 connectivity. We were able to forge a link with Kentucky Data Link, the western Tier
37 One cities, and that is that little place called Pocket. Then from Bristol to Atlanta and
38 Chattanooga will be a multiple carrier. We have a relationship with the Scott County
39 Telephone Co-op which will basically take us into Bristol. And we also get to Bristol by
40 virtue of our Kentucky Data Link, Verizon's Northern Tel Center, and they are our three
41 major conectivities. This is the Kentucky Data Link network. Our little piece of the
42 action is this piece right here from Bristol to Corbin. Our section is from Pocket,
43 actually, into Duffield, and then by way of the co-op. You can see that here.

1 Let's talk about the realities of a year of construction. Our average cost per
2 foot is five dollars and forty-six cents and twenty-eight thousand eight hundred and
3 thirty-eight dollars per mile. The lowest cost we had was a partnership arrangement with
4 Powell Valley Co-op, and that cable was eighty-five hundred per, mile and that's
5 materials and construction only. You have to add some engineering to that.

6 In the early days of the project Virginia Tech said it would be forty-three
7 thousand dollars per mile, and that doesn't include administration, electronics and
8 engineering. The real world experience is far less expensive than what we have
9 experienced in the field, or I mean what Virginia Tech said.

10 Completion status. Phase 1 is the initial fifteen miles, and it's operational, and
11 we have one demonstration customer, and that is a private company in Big Stone Gap.
12 Phase 2, which is the piece that was approved in Farmville last year, that's the Duffield-
13 Jonesville-Pennington Gap and Pocket and Big Stone Gap, and that's all eighty-seven
14 miles, and construction is nearly complete, and the completion date is September 15th of
15 2004. I should also mention that the Tobacco Commission, based on our presentation last
16 summer, we told you we filled about fifty miles of fiber, and we actually have been able
17 to do about eighty-seven miles. Upon approval of the CLEC full operation should begin.

18 Certification issues. Lenowisco Incorporated is basically a holding company
19 for all network assets. Our office will not be the one that you call in the dead of night
20 because you have a cable outage, and that will be Paul's operation, which is Sunset
21 Digital Communications, and network operator will be certificated as a CLEC by the
22 Corporation Commission, and that process is moving along.

23 Some revenue issues. Because we have not received the CLEC approval we
24 have not gotten into the nuts and bolts about generating revenue, but we have
25 connectivity in the ground with the public school system, two higher education
26 institutions, at least the ones in the region for this phase. We have connected business
27 parks and the commercial districts, and in particular the Towns of Big Stone Gap and
28 Pennington Gap, and those are the two communities we have really wired extensively,
29 and we're ready to go there with a lot of fiber to the home right in those communities.
30 We're waiting for CLEC approval.

31 Let's talk about lessons learned, we wouldn't want to do this again. No more
32 major going through creeks, railroads and so forth. It is a nightmare to get all the
33 regulatory approval of places like Marine Resources and on and on and on. From our
34 experience as a PDC we've done extensive operation and planning on public utilities like
35 water and sewer. We knew it would be a problem, and it is a real problem. Our
36 philosophy is plant a pole and go overhead. We, unlike BVU, did not feel that building
37 on the AEP's pole was a good thing. We prefer a one-time capital cost, and we think it is
38 preferable, there's a lot of high up-front cost dealing with the AEP. I'm not making
39 disparaging remarks about AEP, but their policies were more strenuous than dealing with
40 the electric co-ops, they were very reasonable people. No steel stranded cable on the
41 ADSS.

42 Lessons learned. This game plan works when partners share space, like the
43 electric co-op and we use the ADSS alternative that I mentioned. When there's a problem

1 with control we use a varied solution. It's a little more expensive, but we've been able to
2 pull it off. It's future proof. Pricing strategies are being developed for various phases
3 with the customers, and we intend to provide data Internet TV and voice-over IP.

4 Next steps, we need more funding for individual drops. We're considering
5 doing that through borrowed funds. We intend to go to the bank and take on some debt
6 financing, if necessary. In partnership with our team, Cumberland Plateau and BVU, we
7 want to bring in a connection at Hansonville, which is in Russell County, and link up
8 with other on-going initiatives, including the Southside. While we are not here to ask for
9 money today, we're having active discussions with the Economic Development
10 Administration and Cumberland Plateau to provide a link to the region's business parks.
11 We anticipate plus or minus around three million from EDA, and that will require at the
12 appropriate time a fifty/fifty match.

13 This is a picture of an underground conduit machine at work. Here's a pull
14 box. This is a little gizmo that our contractor came up with, this is the splice box on a
15 telephone pole. This is a good illustration of the type of terrain we're dealing with, I
16 believe that is in Lee County.

17 I'll be glad to answer any questions.

18 DELEGATE HOGAN: Any questions? In terms of other funding
19 sources other than the Tobacco Commission, what you have used and what you anticipate
20 using and the EDA money, who else is funding this project?

21 MR. FLANARY: The Center for Innovative Technology has
22 contributed something on the order of one hundred thousand and change for various
23 pieces, principally the Big Stone Gap Project, and we have a new initiative that Skip is
24 working on.

25 MR. SKINNER: We're working on a new initiative with the Center
26 for Innovative Technology. We used some of their money for some of the hard costs,
27 we're also using their money on the soft side to build broadband. That is something
28 important for the Commission to consider in terms of what you get and what are you
29 going to do with it. It's not enough just to have infrastructure, but we need to kind of
30 culture and teach them how to make the best use of this technology. Also, the partnership
31 with Kentucky Data Link, that's funds that will come into the project, and that's funds
32 that have come into the project as well as the Coalfields. Currently, that is where we
33 have been with regard to that.

34 MR. CURRIN: Could you, for the benefit of the Committee, give us
35 a brief overview of the Kentucky Data Link and what does that entail?

36 MR. SKINNER: Kentucky Data Link is the carrier, and they were
37 building long-haul fiber and building a fiber network throughout the East or the Midwest
38 area to consider that. Through the work of our technical consultant, Paul Elswick, he was
39 able to bring them to the table at the appropriate time when they were already
40 constructing a line in the area, and they've been working with Bristol Virginia Utilities as
41 well. We checked what their specs were, and actually we adapted our specs to meet their
42 specs, and we had a lot of flexibility to do that. The last eighty miles of fiber are under
43 construction now with the Coalfield or with that firm.

1 MR. CURRIN: How are the businesses finding out about this
2 project?

3 MR. FLANARY: Skip has been doing a traveling road show. He's
4 done it more extensively than in our service area one in Hot Springs and Hillsville.
5 We've gotten the word out, and interest has picked up. In our economic development
6 mode we're hearing from companies that have bandwidth needs that we didn't expect to
7 have before. They are looking for redundancy and a high degree of bandwidth. There's
8 dialogue going on. There is a lot of awareness.

9 MR. SKINNER: We've had to complete a formal marketing
10 program because of jumping through the hoops of construction and getting this all set up.

11 MR. FLANARY: There is a cultural change within the workforce.
12 You have to move more toward an entrepreneurial spirit, and we're struggling with that
13 piece, but I think that's universally true in rural Virginia, as people understand how to
14 make use of this and do a small business from home and that sort of thing, and that's a lot
15 of what Skip is doing. I see my fellow Board member from the Virginia Coalfields is
16 here. Within the Coalfield region of seven counties, VCEDA has not invested any funds
17 in the broadband project, and I have not advocated for that, and I don't think I will
18 advocate it as a Board member. VCEDA does two pieces, and they are a marketing
19 organization for economic development, and it's a deal closer. Any point in time that we
20 need VCEDA funds to close a particular telecommunication deal for projects specific, we
21 have discussed that.

22 DELEGATE HOGAN: You're saying you use this for the last mile,
23 you could use it for the last mile application?

24 MR. FLANARY: That is correct. I don't think VCEDA, if VCEDA
25 considers that sort of initiative for telecommunications I think they'd also have to
26 consider everything from water and the whole spectrum of things that we don't have the
27 financial resources to do. That's the perspective of a couple of Board members, of which
28 there are sixteen. That's our view. We fully intend to tap other resources beside the
29 Tobacco Commission. We never anticipated you would do all the funding. We'll be
30 back, and we'll need more money to do subsequent phases of the system. We're cognizant
31 of the fact that we need to have some success stories, and we don't want to come back
32 until we've got some great stories to tell to show you this has been a worthwhile
33 investment.

34 DELEGATE BYRON: I'm a little concerned when I hear you
35 talking about how to make the best use and providing something and then having to go
36 out and find a market for it. I know all along many of us, or our intention was that the
37 business was already there or the needs were there and there was a definite need for it,
38 that these businesses know that this is available to them and there's a commitment, and I
39 thought there was a market for these businesses already, or their needs. I realize there are
40 certain businesses that did not have this type of technology before. It was my impression
41 that you had businesses that had a great need for it and it was not there. My question is
42 what businesses, and how are you marketing?

43 MR. FLANARY: I think our impression is that it is not for

1 businesses that are already there, they might have higher bandwidth, but if they are
2 already there they came for specific reasons because you have certain assets, including a
3 labor force, water, sewer, or whatever it may be, also a certain amount of
4 telecommunications capacity. The reason we got into this project was to take us to a
5 level that we can play in now and remove the barrier. This is to provide a level of
6 bandwidth and aggressive pricing and redundancy. We're talking to firms we haven't
7 been able to talk to before, and that's happening now. We are now talking about data
8 recovery operations, we're talking about smaller telecommunications firms, we're talking
9 to a different generation of economic development opportunities that we haven't talked to
10 before, and that's why we got into the project.

11 DELEGATE BYRON: You're talking to businesses that you're
12 trying to attract to the region. When you say teaching businesses how to make the best
13 use of the technology, that's why I questioned that.

14 MR. FLANARY: I'll let Skip, he's worked on that or been a teacher
15 on that.

16 MR. SKINNER: I'm talking about a Main Street business, and we're
17 not going to be fully successful until the people in the Big Stone Gap commercial
18 business district understand what they can do with this once it becomes available. I think
19 all of us that use technology have a tendency to get involved, like checking the e-mail or
20 checking stock quotes or whatever. But I think until you fully take advantage of the
21 technology, advances that are becoming available on a daily basis, because the bandwidth
22 issue, it won't go away, that's going to cease being a problem for businesses. I think we
23 need to demonstrate and show all the different technologies that are available to
24 businesses. One of the firms in the industrial park in Duffield, and they were looking
25 into a West Coast partnership venture, and the inventory control program is going to be
26 something different. That's something that a normal businessman is probably not familiar
27 with. They need to be given some insight and some education, and that can be in
28 cooperation with the local community colleges. That is something we are not doing on
29 our own, but we're working with different partners in the region to put that program
30 together.

31 DELEGATE BYRON: Are you reaching the hospitals?

32 MR. SKINNER: The local hospital, I'm presently Chairman of the
33 Lonesome Pine Board of Directors, Welmont. They have basically agreed to provide the
34 space, the electronics business in Big Stone Gap has agreed to provide the power twenty-
35 four/seven. They have a brand new state-of-the-art CT scanner that they are marketing
36 currently to the public that depends on this technology to make the radiology images
37 back and forth between the other three facilities.

38 DELEGATE BYRON: Have you created any jobs yet that relate
39 back to this?

40 MR. SKINNER: We're still so much in our infancy. I'm personally
41 working on some type of a metrics to be able to, and when we hook a business on we'll
42 be able to get an idea of what are their current investment levels and come back in a
43 twenty-four or thirty-six month time period and resurvey those so we'll have some, that's

1 part of that good story to tell, and we can give you some feedback. Tuck Engineering is
2 our premiere customer now. They would fully acknowledge that they are now getting
3 business opportunities in their business that they never had before because of this and
4 because of partnership opportunities they are talking about. It's causing those business
5 network relationships to look at our area as a possible expansion opportunity as well.

6 MR. FLANARY: We can't tell the story yet, because we don't have
7 the operating authority, and that has to come within the next few months. When that
8 happens that will, or we anticipate it is going to change quickly, and we'll have some
9 pretty positive stories.

10 DELEGATE HOGAN: When you get that operating authority,
11 would you tell us, tell the Staff, because it would be nice to know what is happening, and
12 hopefully by the next meeting. I would encourage you all to look at other funding
13 sources for this project. I understand CIT is giving a hundred thousand just from
14 listening to you, and the bulk of the project has been funded through the Commission.
15 One of the things we're trying to do through this Committee, as well as the Commission,
16 and that is to push everyone that comes here and asks for money to look at the other
17 options as far as raising money that's available out there, whether it be in the federal
18 system or local or other state funding or private, because we just don't have enough
19 money to do all or do everything for everyone. So I would encourage you to do that,
20 because you know our funding is from year to year, and if one of the major manufacturers
21 gets sued at some point, so I'd really encourage you to look at other options for funding.

22 MR. FLANARY: We have, and we know that, Mr. Chairman. The
23 piece we are talking about now is self-supporting. We know that. We're looking and
24 have looked and will continue to look, and we have been successful in finding others, but
25 by the same token we got into this because of the Tobacco Commission and because the
26 Tobacco Commission identified this as an issue, and we stepped up to the plate for our
27 little piece of the region to try to put something together and make it work. I can hear
28 what you're saying, and we're sensitive to that. Thank you very much.

29 MR. KELLY: I'm Jim Kelly, Vice President of the Operations
30 Group, and the reason why we're here today is to update you on the money you have
31 provided to us and what you got for it. Why did we expand, simply to help enhance the
32 economic development for our area, offer competitive services, provide high quality local
33 telecommunications, expand our cutting edge technology. Everything we do is over our
34 fiber network. I'm a little embarrassed that I couldn't get your entire name here at the
35 bottom on this, just referred to you as the Virginia Tobacco Commission.

36 Mr. Skinner and Mr. Flanary have already gone over their portion. The
37 Tobacco Commission has provided money in two different stages for us. Back in 2002
38 they provided engineering money which we used for Bristol down to the Gate City area
39 for design. We actually tie into fiber that has been provided by Mountain Telephone by
40 Scott County Cooperative. We received money to design a line going up Route 16 from
41 Marion to Independence, also engineering for a project, Abingdon to Lebanon, Claypool
42 Hill and Richlands, and of course, for the Town of Abingdon within the town limits there.
43 The money that you initially gave to Bristol, Virginia was about six hundred sixty

1 thousand. You can see what the projects were and what the status is. There's a little
2 money left on the Abingdon to Richlands part, which we are using for a couple of
3 railroads. I found out that the Virginian is owned and operated by Norfolk Southern.
4 Please keep that in mind.

5 The latest thing we received was four hundred fifty thousand. That was for the
6 fiber from Abingdon to Rural Retreat. I can go into this in a little more detail. Each one
7 of these received the seven hundred fifty thousand to build infrastructure within the town
8 limits of Abingdon, and that has been completed. That's pretty much completed, we're
9 offering to serve customers already. The Abingdon to Richlands route, none of that
10 money has been spent, and it hasn't been spent because the backbone infrastructure is not
11 yet complete. We have done nothing in the Town of Independence to utilize the fiber to
12 businesses; that's really kind of stagnated at this time.

13 DELEGATE HOGAN: We might have a few questions for you.

14 MR. KELLY: The thirty thousand to deploy fiber in the community
15 of Mendota, and I'll get into that later. The Bristol to Gate City, that was designed with
16 the fiber from the City to Gate City, and we'd use it as a diverts route between Mountain
17 Net Telephone and BVU. You've heard Mr. Flanary and Mr. Skinner refer to the
18 Kentucky Data Link. We built a portion of that for them to lease, it was co-built with
19 them. It will be a great inter-connect between the Lenowisco projects and BVU.
20 Residential and commercial customer connectivity will be enhanced along this route.
21 Within the town limits we've got infrastructure designed to get to approximately thirty-
22 four hundred residents and six hundred businesses. It's a total of forty-seven miles of
23 outside plants. The infrastructure put in would support voice video. The Abingdon to
24 Richlands project, fifty-one miles of outside plant through these towns and areas you can
25 see up here. It was a turnkey job. The Marion to Independence was a design of forty-
26 five miles of fiber along Route 16. It includes the infrastructure necessary to do fiber to
27 businesses and fiber to the home within the town limits of Independence, including the
28 industrial park. The fiber lease came from C-3 Communications, and we secured that,
29 and we have it already in place. This will offer us an opportunity to serve all of the
30 industrial parks along the I-81 corridor, and there are six of those. We've done
31 preliminary engineering to see what it would take to get into those parks. We have had
32 customers contact us from each of the parks along I-81 to see if and when they can get
33 connectivity.

34 DELEGATE HOGAN: Who is going to go to the individual
35 businesses?

36 MR. KELLY: We do, it's a turnkey. We'll take it all the way. We
37 provide all the services for it. We're not the provider or the carrier, but we provide the
38 service, we are our own ISP.

39 DELEGATE HOGAN: What are your limitations, Mr. Kelly?

40 MR. KELLY: Seventy-five miles from any point in the electric
41 service area. It's all shown on that map.

42 DELEGATE HOGAN: I'd like to see it. I want to see Halifax.

43 MR. KELLY: The light gray area including Bland County and

1 Wythe County and Grayson west through Lee County is the certification area that we had
2 received, or the area that the legislature has allowed us to operate in. There are some
3 dark gray areas right along the edge. The Bland and Wythe area, if I remember correctly,
4 legislation was written, I think, any part of the jurisdiction that you touch you are allowed
5 to serve the entire area. That means we can go all the way to Pulaski if we so desire.
6 Right now we don't desire to do that.

7 DELEGATE HOGAN: Were you having similar problems in this --
8 MR. KELLY: -- AEP was having similar problems. Everything was
9 fine with AEP in the beginning, but now they have come up with a new engineering
10 program. They want to make sure that their pole load structure is correct and not
11 overloaded. We're going to spend, out of that 2.365 million, about six hundred sixty
12 thousand dollars go to AEP. That is for the engineering study and for the make-ready
13 work.

14 DELEGATE HOGAN: How much difference is that from what you
15 had budgeted, what did that change cost?

16 MR. KELLY: I had anticipated about two hundred thousand would
17 go for the make-ready work.

18 DELEGATE HOGAN: You're out another four hundred thousand?

19 MR. KELLY: Approximately.

20 DELEGATE HOGAN: Maybe we should send them a bill.

21 MR. KELLY: I'd rather not talk about that right now. They have
22 changed horses in the middle of the stream on us, and we're just going to have to come up
23 to the plate. The people from Lenowisco have held up to this, but looking at the terrain
24 that we have had to go through, there's been a lot of rock, a lot of rock. We're going to do
25 this project area, and by doing the area we're going to, it's going to be very easy to access
26 customers along the route. This route right here is what we're talking about, and there are
27 customers strung along this entire route from Abingdon up across the Russell County line
28 into Lebanon. Up to Claypool Hill they're just scattered all the way through, and by
29 having points of attachment along the pole it's so much simpler, we think. I hope I have
30 answered your questions.

31 DELEGATE HOGAN: Thank you.

32 MR. KELLY: Going up the I-81 corridor, and I consider this an area
33 that is extremely important, and these people have been hit quite severely on job losses
34 from furniture and any industry that has suffered losses along here. They are marketing
35 very well, but a town like Meadowview, Marion, all those places have industrial parks,
36 and off of that leased fiber there are areas that we can drop down and do a small amount
37 of construction and get into those industrial parks. We've had at least one customer for
38 each one of those industrial parks contact us and say when can you get here, when can
39 you get here.

40 Fiber to the businesses in the Town of Abingdon, twenty-three miles of fiber
41 infrastructure has been installed, and we have put in between sixteen and seventeen miles
42 of that, and we have held off on the other six miles because we had to save some money
43 back for our friends at AEP, another quarter of a million dollars for the Town of

1 Abingdon. BVU will be serving approximately five hundred residential customers, I
2 believe it's five zero three along this route, and there's six hundred eighteen businesses
3 that will be passed. There's going to be benefit from what we have done in the Town of
4 Abingdon. We're in the process now of those folks switching over to us, phone service,
5 the electronic village of Abingdon, and we now provide the bandwidth to them and
6 extend it to other customers. The Washington County School System, we provide
7 connectivity for parts of Washington County and their administrative offices. The
8 Washington County Governmental Offices, we just hooked up their Treasurer's Office
9 and Commissioner of Revenue, as well as the hospitals.

10 DELEGATE HOGAN: When you did this for the constitutional
11 officers, what did you have to do to get through the Supreme Court system? Did you
12 have to give them their own individual T-1's, or how did you do it?

13 MR. KELLY: They are in a lot of different buildings and a lot of
14 different locations within the Town of Abingdon. As we'd go by the building, we'd drop
15 service into it and pick it up and tie it back to our point of presence in Abingdon and take
16 it back to their central office.

17 DELEGATE HOGAN: And handle it just like you would handle
18 anyone else?

19 MR. KELLY: Yes. The medical community at the Johnson
20 Memorial Hospital, they're providing the link between them and the hospital and the
21 Higher Education Center and the community college where they tie into Network
22 Virginia and right back to UVA. We'll be providing service to the new high tech business
23 park, or actually the business incubator there in Abingdon. We've already constructed the
24 fiber to be within about a hundred and fifty feet of that building. The community college
25 and the Higher Ed Center, we're working with the community college right now to allow
26 them to come to our local origination station on our cable TV system to provide courses.

27 The commercial customer market is better for us. Our Abingdon customer
28 statistics is going to look a little low, but we did not sign up the first customer until
29 between four and five weeks ago, and we had some equipment delays there, and that kept
30 us about two months behind schedule. Four hundred thirty-seven commercial customers
31 pass, five hundred three residential. In the first week here we picked up twenty-two
32 telephones, twenty-eight data, seven CATV customers. We're finding out that businesses
33 are jumping on the bandwagon, I guess they want to see the weather, the financials and
34 for openers.

35 Pending customers, as you can see it is beginning to grow. We're averaging
36 about six customers per day that are signing up for services.

37 DELEGATE HOGAN: You've got about a thousand customers you
38 passed in --

39 MR. KELLY: -- Just within the town proper, yes.

40 DELEGATE HOGAN: What is your break-even point on having
41 this project pay for itself? I'm curious how many folks you have to get hooked up to
42 make this thing a good investment.

43 MR. KELLY: This is going to be a little bit different from the City

1 of Bristol, probably looking at about twenty percent from the Town of Abingdon. It's
2 much higher in the Town than the City of Bristol, where they spent thirty-two million
3 dollars of their own money to build that network.

4 The fiber to the businesses, Abingdon to Richlands, that's the seven hundred
5 thousand that you allowed us to use, and we haven't touched that yet. The backbone is
6 installed to Richlands, and we can utilize this money to hook up customers, and that is
7 what it is all about. If you don't hook the customer up, in the end you won't succeed. The
8 customers in Washington, Russell, Tazewell, and we will be providing competitive
9 services to industrial and commercial customers and hope residential customers.

10 Who can benefit? The Russell County medical community, Richlands, and
11 others. Through our network we can provide the hospitals and the participating doctors'
12 offices, et cetera. The Russell and Tazewell County offices and the school systems, the
13 new business incubators, like the one in Richlands, the Southwest Virginia Community
14 College and the Commercial Market. Mr. Carr is going to give you some information on
15 people in Russell and Tazewell Counties that are anxiously waiting for this.

16 MR. CARR: Mr. Chairman and members of the Committee, as Jim has said,
17 we've run all the fiber backbone all over the world. If we do that and we don't have any
18 customers we don't have anything. The first fifty-one miles of our project with BVU is
19 going to terminate at a new business incubator in Richlands, and in that incubator they
20 have six or seven new start-up businesses that are anxiously awaiting on the possibility of
21 getting bandwidth that they need. The Town of Richlands is now running fiber
22 throughout the whole town, and they are doing that at their own expense. They are
23 buying electronics for an additional point of presence in the Town of Richlands, so there
24 are local monies going into this overall project. In the first fifty-one miles, as Jim says, is
25 a million six hundred sixty-five thousand from the Economic Development
26 Administration, and the Tobacco Commission provided us with the match on that.

27 As Skip alluded to a few minutes ago, we're working with the business village
28 that VEC Tech is setting up throughout the area. They have several customers, and they
29 are helping develop a web presence where they can buy and sell worldwide on the web.
30 We've also made contact with the local school system, local government and the hospital
31 medical network throughout the area. There are doctors in the Town of Lebanon that are
32 very much interested in developing tele-medicine, and they are linked into the University
33 of Virginia. They are locating in a technology park that we are developing in connection
34 with this first fifty-one miles. In the Town of Lebanon we purchased a piece of property
35 that cost us a million five at local expense. We got a million dollars from EDA to help
36 develop that park. The county put up an additional six hundred sixty-five thousand
37 dollars local match, and it is for technology and our point of presence in the Town of
38 Lebanon to be in that park. We're hoping to recruit mostly telecommunications type
39 companies to the park. We're also working with local business and industry in the Town
40 of Lebanon. We've got a Fortune 500 company, Teleplex, AT&T and Alcoa. I think
41 Verizon is providing service to AT&T Wireless at this time, but they have indicated to us
42 they would like our service for redundancy as well. I think the key point of what we're
43 trying to do is we're trying to make this a paying proposition as best we can. Once we get

1 this fifty-one miles in some time in, and if we do this by the end of July, and it takes
2 about ninety to a hundred twenty days, we'll be ready to start hooking these customers
3 up.

4 One other thing I wanted to mention that Ron mentioned is that the Economic
5 Development Administration has indicated to us that they will give us an additional three
6 million dollars, both for Lenowisco and the Cumberland Planning District, and they'll do
7 this through a coalition of the two planning districts. It would make this truly a regional
8 project then. As Ron said we're not coming to you for anything this time, but after our
9 two years are up we'll probably be back. I think we promised you in Farmville we
10 wouldn't be back for two years.

11 DELEGATE HOGAN: To the day.

12 MR. CARR: We're in the process of dealing with that, and we can
13 submit this application to EDA, probably by the end of July, and then possibly get that
14 funding sometime after October 1st when the new fiscal year starts.

15 MR. KELLY: We talked a few minutes ago about the last mile
16 funding for the Town of Independence. The fiber deployment for the community of
17 Mendota, and we went through and looked at the structures, and there were eighty-two of
18 them that included goat barns, pump houses and we found out there were sixty-four
19 homes and three businesses. The Washington County Library, we should be connecting
20 between Abingdon and Mendota in about two to three weeks. They signed a contract
21 with us yesterday afternoon. Welmont is looking for a link between their clinic there in
22 Tennessee, and that is going to take some cooperation between Bristol Tennessee Electric
23 and Bristol Virginia Utilities to get a half-mile of line into the hospital there. There is
24 also a senior center there that is looking for service. It's been about six or seven weeks
25 since we started construction, and we have thirty-eight customers. It amazes me how
26 many of them took the triple play. Mendota, as far as I'm concerned, is rural. We had
27 one customer upset with us because he could not, or he couldn't understand we couldn't
28 get running water across the fiber, and he is badly in need of running water.

29 Here are the services that we offer. If you have any questions about it I'll be
30 happy to go through them with you. Bristol has not received any money whatsoever
31 from the Tobacco Commission.

32 DELEGATE HOGAN: Yet.

33 MR. KELLY: I don't know that we ever have, it would be a good
34 idea, don't get me wrong.

35 DELEGATE HOGAN: We know.

36 MR. KELLY: How are we doing? We have over fifty-six hundred
37 opti-net customers on-line, this is not just within the City, but we have about two
38 thousand twenty-five customers within Washington County and in our electric service
39 area. We are surpassing our 2004 revenue customer goals now. After eleven months of
40 operation we became EBIDA positive, so, yes, according to our business plan we'll be
41 able to pay our bills. EBIDA sounds really good, but at the end of the day you want to be
42 able to pay everybody that you owe, and we're ahead of the schedule, and we're on line to
43 do that. We have forty-two hundred and seventy phone customers and another hundred

1 and ninety-three pending, and our goal was thirty-four twenty-seven. Four thousand
2 forty-seven cable customers, and we were just allowed to start serving cable customers
3 one year ago today. We've been in operation with the cable system for one year. On our
4 Internet customers we're over fifty percent that are taking our high speed Internet. We
5 have eight hundred ninety-six dial-up customers, and our future penetration is fifty-eight
6 percent. Our long distance penetration, eighty-three percent.

7 DELEGATE HOGAN: Is the growth potential you have in
8 broadband?

9 MR. KELLY: It is in both. Fifty percent on the high-speed Internet
10 is excellent. We're serving almost fifty-eight hundred lines on the telephone system.
11 That's pretty good for about fifteen or sixteen months of operation. I want to thank you
12 for the opportunity to be here today, and we're here to try to answer any questions you
13 might have. I want to say the leased fiber that we went through that we asked you for
14 money for, AEP has gone into a fire sale, and they are out of the telecom business.
15 They're trying to get rid of the fiber, and we were fortunate enough to lease twelve. What
16 that fiber does is that we do have a customer on that. We have the Chilhowie Branch of
17 the Smyth County and Bland County Library. After the meeting in Longwood we had
18 service to them in twenty-eight days. There's a lot of potential along the I-81 corridor for
19 these industrial parks. It would be great for the Tobacco Commission to help fund some
20 of those counties along there. I've also brought some price lists with me if you'd like to
21 see what we charge.

22 SENATOR WAMPLER: Good morning, could you go back to the
23 Mendota slide? I will not trespass on the Committee's time, but I think it is important to,
24 or it dawned on me as we prepared for this afternoon's dissertation as to how we can try
25 to plan Southside. Mendota is a pretty good example, it's a very small community. It's
26 got a river on the border of Tennessee and on the borders of Washington and Scott
27 Counties. It's a farming community and no industry per se, about as pretty a place as one
28 can go to. What got us interested in Mendota was the branch of the Library. There was
29 no way for them to have the type of connections they wanted, and BVU said they were
30 willing to do it. The anchor tenant you found at the community center, and at the
31 community center you had community activities, and you had other resources like health
32 information being one of them. I suggest Mendota is dotted throughout Southside
33 Virginia, and no matter where you go you're going to have communities such as this.
34 You've also got some communities like that down to the Carter Fold, which has an
35 international reputation for country music. When you go there you find visitors from all
36 fifty states. In spite of itself it's such a well kept secret that folks have a hard time getting
37 there. Now that they are able to go on the web, the potential is there, but the problem is
38 there is not a lot of revenue generated from the Town of Mendota. People talk about
39 business plans, but I think you have to invest for the future and what it means and how it
40 sets you apart from the rest of the people. So I think it's an impressive little model.
41 When you look at the numbers Jim has put up here, it's really hard to get a jump-start.

42 DELEGATE HOGAN: Geographically, how big is Mendota? How
43 spread out are these sixty-four people?

1 MR. KELLY: From the edge of the residential community to the
2 other end of the residential community is maybe half a mile.
3 DELEGATE HOGAN: All sixty-four of these people within a mile
4 and a half?
5 MR. KELLY: Yes.
6 DELEGATE HOGAN: What did it cost you to do this little project?
7 MR. KELLY: It didn't include the electronics. The outside or the
8 fiber itself was funded with that thirty thousand from the Tobacco Commission. I was
9 told not to spend over thirty thousand on this.
10 DELEGATE HOGAN: And then what more?
11 MR. KELLY: We'd put it on the side of the house. For a residential
12 customer in the range of fifteen hundred per customer for fiber directly to the side of the
13 home, and a little more for the commercial customer because it varies as to what they
14 need, because they have higher demand.
15 To me this is a success story, Senator Wampler. There are some people that
16 have high-speed connectivity here that don't have running water and don't have sewer.
17 We have another success story with a three billion dollar a year business between the
18 Washington County Industrial Park at Exit 22 in Downtown Abingdon that we're
19 providing point to point connectivity to, and we were chosen to provide that connectivity.
20 Two weeks ago, to our knowledge, we signed the first contract with MCI to provide a
21 local loop connectivity that had always gone to the incumbents. A customer told MCI
22 about us, and they came to us, and we worked out a contract to where we would provide
23 diverse connectivity between Johnson City through another carrier, Bristol Compressor.
24 The Bristol Herald Courier, which is part of Media General, they have supplied all of
25 their reporters with camcorders, and we've helped them provide connectivity to the CBS
26 affiliate owned by Media General and the ABC affiliate in Kingsport and the Bristol
27 Herald Courier in Bristol, Virginia, where they can download and it goes out on the news
28 almost immediately. So we feel like those are success stories.
29 DELEGATE HOGAN: Does anyone else have any questions for
30 Mr. Kelly? Thank you.
31 Let's take a quick break, and I thank the Senator for joining us, and then we'll
32 take up our Agenda.
33
34 NOTE: A break is had, thereupon the meeting continues,
35 viz:
36
37 DELEGATE HOGAN: Let's have a roll call.
38 MR. CURRIN: Mr. Arthur?
39 MR. ARTHUR: (No response.)
40 MR. CURRIN: Mr. Hite?
41 MR. HITE: (No response.)
42 MR. CURRIN: Mr. Montgomery?
43 MR. MONTGOMERY: Here.

1 MR. CURRIN: Mr. Owen?
2 MR. OWEN: (No response.)
3 MR. CURRIN: Mr. Owens?
4 MR. OWENS: Here.
5 MR. CURRIN: Ms. Terry?
6 MS. TERRY: (No response.)
7 MR. CURRIN: Senator Wampler?
8 SENATOR WAMPLER: Here.
9 MR. CURRIN: Delegate Wright?
10 MR. WRIGHT: Here.
11 MR. CURRIN: Vice Chairman Byron?
12 DELEGATE BYRON: Here.
13 MR. CURRIN: Chairman Hogan?
14 DELEGATE HOGAN: Here.
15 Let's try to go through and not stop for lunch. We've got a lot of things to
16 cover in terms of this MBC Project. Let's hear from Mr. Deriso about how things are
17 going.
18 SENATOR WAMPLER: If I may suggest, there are two items that
19 need recommendations from this Committee to the Full Commission relative to
20 Southwest before we get into Southside, maybe we could address those now.
21 DELEGATE HOGAN: That is fine.
22 SENATOR WAMPLER: Mr. Chairman, I would ask the Staff to
23 help me on this. A motion was made at the Full Commission meeting in Danville in May,
24 and the words were to this effect, that the grant that was previously made to Bristol
25 Virginia Utilities in the amount of one hundred thousand dollars and that BVU be
26 released from its contractual obligations. That the Town of Independence present its plan
27 to the Commission for their technical review and recommendations made on the technical
28 components, and I think that has been completed. I would hope this Committee would
29 say that with the technical review being completed by Staff, and that it meets our
30 minimum requirements, that that motion be made at the July 22nd meeting and that we
31 award that one hundred thousand dollars to the Town of Independence. Maybe Staff
32 could help me out a little bit on that, but I think that capsulizes where we are on this.
33 DELEGATE HOGAN: Do we have a second?
34 MR. OWENS: Second.
35 DELEGATE HOGAN: Maybe we can say this, we're going to do
36 exactly the same thing and that instead of BVU doing the Town of Independence.
37 SENATOR WAMPLER: This may have a little bit different, how it
38 is going to be deployed to the Town of Independence would receive the grant and move
39 forward.
40 DELEGATE HOGAN: The motion has been made and seconded,
41 any discussion? All in favor say aye? (Ayes.) All opposed, like sign? (No response.)
42 SENATOR WAMPLER: Mr. Chairman, there is one other issue, and
43 this one has been before us several times and has to do with the grant that was discussed

1 and agreed upon at this hotel in June of last year. With the Technology Committee being
2 the successor to the entity called
3 E-58. The money or the preliminary engineering from Marion to Independence, it was
4 not clear as to how we would get the pathway to Independence until BVU completed
5 their engineering, and if memory serves me right it was one hundred fifty-four thousand.
6 They have completed that, and that is the issue. Speaking for the Southwest community,
7 that is the only item that is left unfunded or where the Commission has not transferred
8 dollars in accordance with what our regional plan was. I'd make the motion that we
9 recommend to the Full Commission that one hundred fifty-four thousand dollars be
10 reimbursed to Bristol Virginia Utilities for the preliminary engineering work that they
11 completed on that leg.

12 DELEGATE HOGAN: Do we have a second?

13 MR. OWENS: Second.

14 DELEGATE HOGAN: Discussion? I think there was some
15 conversation about did we approve that money or did we not approve that money. If that
16 is the hang-up, what do we need to do to resolve that?

17 MR. PFOHL: That was exactly the hang-up. There was discussion
18 about funding this specific phase of work, but in the conversation two years ago there
19 was not money available to complete or to do that. There's no record of the Commission
20 approving funding from Marion to Independence.

21 DELEGATE HOGAN: We don't have the money? At this moment
22 we don't have any money allocated, is that correct?

23 MR. PFOHL: There are no funds currently obligated for the project.

24 SENATOR WAMPLER: Mr. Chairman, let me take a pass at that.
25 It's pretty simple that we told them to do the work, and they did the work, and they're
26 hanging in the balance for one hundred fifty-four thousand dollars. The Commission can
27 do one of two things, either recognize the work they have done and reimburse them for it
28 or leave them high and dry. They didn't do it because they wanted to, but it was because
29 we asked them to do it.

30 DELEGATE HOGAN: Why did we ask them to do it?

31 SENATOR WAMPLER: Because this was part of the plan of how
32 we get to Independence. It didn't do any good to do a hundred thousand-dollar grant to
33 anybody or the Town of Independence if we didn't have a pathway to get there. Whether
34 this plan is actually brought to fruition or not, doesn't matter. That was the pathway, and
35 now we have other providers that have come to the table to help. That really saves us
36 some money. That is actually saving us a lot of time and money, and that is really what it
37 boils down to. Are we going to reimburse them for work they have already done and for
38 work that we asked them to do?

39 DELEGATE HOGAN: Why don't we have any record of asking
40 them to do it? That's somewhat irritating.

41 SENATOR WAMPLER: You'd better believe it's irritating. If the
42 Full Commission doesn't want to do it the Southwest will have to pay for it of its own
43 economic development dollars. I think that's a heavy burden and a pretty bad precedent

1 for the entire Commission.

2 MR. MONTGOMERY: It would be of benefit, I remember talking
3 about that.

4 MS. WASS: It was talked about at an E-58 Committee meeting and
5 also at a Full Commission meeting, where it was delegated to the Executive Committee
6 to ask on this particular grant, and then the Executive Committee never met on that issue.

7 SENATOR WAMPLER: We're going to leave them high and dry if,
8 somebody will wind up paying for it, and it's just a question of, I think we have a moral
9 obligation to do that. Stephane capsulized it much better than I did.

10 DELEGATE WRIGHT: I'd like to ask a question. Can this
11 Committee do what we're being asked to do, pay for something we haven't approved?
12 The work has been done, does it not have to be approved in advance?

13 MR. FERGUSON: Delegate Wright, I'll take prompting from my
14 colleagues here if I say something wrong. Our practice and guidelines call for us at this
15 point only to reimburse for work previously done and previously approved. I think it is
16 within the body's authority to determine that they had previously approved the budget but
17 if for some reason failed to reflect it in the official record then you can recommend a
18 correction of the record in that regard. I don't recall, so I'm not sure what happened.

19 DELEGATE HOGAN: I don't know, either.

20 MR. FERGUSON: I don't know whether there was prior approval
21 or not, that is for you to determine. Legally could you do it, yes, I suspect you could, but
22 you'd have to recommend to the Full Commission like any other spending
23 recommendation. Is it within your authority to do that? I suppose it is. Is it within the
24 practice of the Commission? It's not currently our practice to do it that way.

25 DELEGATE WRIGHT: Mr. Chairman, that's basically what I'm
26 asking, our policy, as well as what's legal. I recall some discussion about it and being
27 requested to pay for things in the last Economic Development meeting.

28 MR. FERGUSON: There have been requests for payments of things
29 that had not been properly approved by the Board that came before the Board in the past.

30 DELEGATE HOGAN: The E-58 Task Force, I wasn't on it, so I
31 don't know. There was a motion passed, according to Stephane, to find some money or
32 have the Executive Committee find some money, is that right?

33 MR. KELLY: Yes.

34 DELEGATE HOGAN: Were you told at that point to go ahead and
35 do the study or not?

36 MR. KELLY: Yes.

37 DELEGATE HOGAN: By the E-58 Task Force?

38 MR. KELLY: Yes.

39 DELEGATE HOGAN: Then the Executive Committee said, or you
40 were told to do the study, then the E-58 Task Force asked the Executive Committee to
41 come up with the money, is that an accurate representation?

42 MR. KELLY: Pretty close, yes. It's been a while, though.

43 SENATOR WAMPLER: Mr. Chairman, I'd say the latter is probably

1 the best representation. After the E-58 discussion, the Full Commission deferred to the
2 Executive Committee, and that is the basis on which they did the work.

3 DELEGATE HOGAN: Is that in the Minutes?

4 SENATOR WAMPLER: The Minutes do not accurately reflect the
5 intent. It's been before us clearly, as Delegate Wright points out. In a perfect world we
6 would have done it by motion ahead of time, it's not rocket science, it's just a question of
7 how we pay that bill. If the Full Commission doesn't want to do it, then Southwest will
8 do it, we have an obligation to pay it.

9 DELEGATE HOGAN: Why don't we do this, get an accurate
10 picture of what is going on. The Senator made a motion, let's see if we can restate it and
11 second it. We will ask the Full Commission to support a hundred fifty-four thousand
12 reimbursement, a hundred fifty thousand dollar grant to BVU on this previously directed
13 work for this engineering.

14 SENATOR WAMPLER: A hundred fifty-four nine, or someone's
15 got the correct figure.

16 DELEGATE HOGAN: Again, I don't know where we're going to
17 get the money from.

18 MR. OWENS: Wouldn't you have to amend your Minutes to reflect
19 that, if there is no record of it?

20 MR. FERGUSON: Mr. Chairman, I would suggest that if it is the
21 intent of the motion to secure funding to a grant and to do it based on past intent, under
22 the incomplete actions of the Commission, I think I would suggest that the motion
23 probably should be for a grant of one hundred fifty-four thousand and change to Bristol
24 Utilities for the work, which it has been the intent of the Commission to have performed
25 and reimbursed for and which the Full Commission directed previously the Executive
26 Committee to handle, but that has not happened, so this Committee recommends that it
27 now occur.

28 DELEGATE HOGAN: So moved.

29 MR. OWENS: The funds come out of next year's budget?

30 DELEGATE HOGAN: I think that's an appropriate point and
31 probably pertinent to what we're getting ready to do right here in just a few minutes,
32 which is to say that if the Full Commission has not voted to allocate the money, will it do
33 it, because this is really a problem, and the good offices of your able representation you're
34 going to get out of trouble which probably shouldn't be getting out of. We've got some
35 issues, and I think that is a relevant point. Maybe some of the other folks here should
36 hear this. The money has not been allocated, don't start spending it yet. No matter what
37 somebody tells you, if we don't have a motion we haven't allocated the funds, we haven't
38 done it then. All right. There was a motion and it was seconded, all in favor? (Ayes.)
39 All opposed, like sign?

40 DELEGATE WRIGHT: No.

41 DELEGATE HOGAN: All right, the motion reflects one no vote.

42 All right, Mr. Deriso.

43 MR. DERISO: Thank you, Mr. Chairman, I'm Tad Deriso, the

1 Acting General Manager for Mid-Atlantic Broadband Cooperative. We're going to go
2 over this fairly briefly, and we're going to have some maps and talking about our progress
3 to-date and also some revenue opportunities we've established and have identified and are
4 working through to get those through our pipeline. One thing I will say is that we are
5 under some very heavy non-disclosure agreements with companies we are negotiating
6 with, so I'm not going to tell you the names in my presentation, but if you'd like to come
7 up afterward I'll be glad to tell you who we are talking with in private.

8 As far as progress to-date, we have signed a contract with Dewberry and Davis
9 out of the Danville, Virginia office and the Atlantic Engineering Group, who have worked
10 on several other projects. That's with an engineering piece, basically the 58 project
11 funded jointly with the Commission and EDA. They have been holding community
12 meetings this week with local planning districts, the counties, the town administrators for
13 all the towns that we will be entering into within the Southside area. They are looking at
14 fiber routing detail, where the fiber is going to be interconnected and terminated within
15 the buildings. In the Southside project from day one we have said this is a single project
16 and just due to the funding nature of this. We have an EDA funded piece and another
17 piece that is being handled by ADESTA. We presented a couple of months ago a
18 proposal from ADESTA as well as their contract documents in pricing for the overall
19 backbone network, and I believe that is in your packages. ADESTA is currently working
20 on some phases of this project. We'll be getting some better maps, but from a priority
21 standpoint I wanted to note this on the map. We'll be starting from Keysville and going
22 to Petersburg. That's the ADESTA piece. We will be going through Lunenburg County,
23 through Blackstone. We are doing that because we have a specific customer request, and
24 that if we can get that built fairly soon we'll be able to realize some immediate revenue
25 into our system.

26 DELEGATE HOGAN: Can I ask you who that is?

27 MR. DERISO: I can't tell you that, I will tell you off-the-record.

28 DELEGATE WRIGHT: What is the time frame on that?

29 MR. DERISO: The ADESTA piece, they are doing a turnkey
30 project, and that means that they are currently doing a design for these various links
31 around Southside for their project. Once they finish the design and we get our permits
32 with VDOT they will start construction, and that means hiring construction firms within
33 Virginia to go ahead and build the project. ADESTA is acting as our construction
34 management firm, and they will coordinate everything to make sure that the fiber that is
35 going in is meeting specifications and is correct and this, that and the other. As of today
36 ADESTA is doing the route verification on the full project, as well as starting on the first
37 link. I believe they are on 460 and Route 40. What we mean by route verification is that
38 they are going through and looking at routing details, which side of the road to be on,
39 where the right of way lines are, and all of that is being coordinated throughout this
40 whole project, and they will get that done. I believe the link schedule or the design is
41 slated to be completed for that link sometime in the early fall of this year. We hope to
42 start construction within a month or so of that. I'd like to say we could get fiber built
43 before the end of the year for the first link. One of the things that we pushed through

1 ADESTA as we're doing these projects, and time is of the essence. We've got to do the
2 whole thing at the same time and try to get all twenty counties incorporated. The whole
3 network is planned, and it will be completed by January, 2006. That's all construction
4 and all operations. We move from a construction phase into an operational phase. As far
5 as that particular link, we're looking at getting that towards the end of this year. ADESTA
6 is working with us on the initial planning. What we're doing is that we're designing the
7 fiber network and looking at the strands and types of fiber that will be specified and what
8 the contractor will be putting in, and electronics is a big part of that. We'll be lighting
9 this very high capacity electronic gear. We'll talk a little later about that in the
10 presentation. We've looked at two major vendors that will help us on this project.

11 We've done a joint project with the City of Danville with their metropolitan
12 area-wide network. We've done a joint fiber build, and some of our routes overlap their
13 routes. We worked out an agreement where we would put up one cable and we share the
14 fiber strands within that cable. From our cost projections versus what it is actually going
15 to cost us to build, we're saving three hundred thousand by doing that partnership.

16 I want to talk about customers and some of the initial interest we have had. We
17 have not done a formal marketing program and haven't done any high capacity sales.
18 This is stuff that has come about because of the announcements, because of the press, the
19 involvement of people within the Tobacco Commission in these various projects, and
20 people have expressed this interest. We have one large cable company that we are
21 currently negotiating with for an OC-48 to connect several of the franchise areas. There
22 is a national private company who is looking to connect some facilities both in Southwest
23 Virginia and Southside, and that would be an OC-48, and there's very large revenue
24 anticipated on a monthly basis that would be received. We have been contacted by three
25 wireless companies, and that's wireless Internet service providers, provides connections
26 into small communities. They are looking to use our network for back call services.

27 DELEGATE HOGAN: Would you tell us what that means?

28 MR. DERISO: Sure, we have a company looking to go into a
29 particular community and to serve broadband wireless. They can put the equipment on
30 the tower, and they can serve the wireless Internets to residents and businesses, and
31 everything works great. The problem is when they want to get out or back to the Internet
32 they are buying that T-1 circuit from the existing providers, and that is where the twelve
33 to fifteen hundred dollars a month comes in for that circuit cost. When they look at a
34 customer and how many T-1's they need, it's just not feasible for them to be competitive
35 and make that a viable service, especially when you are in a rural community. What they
36 are looking to us for is taking the service with the Internet connections that would be part
37 of the MBC network.

38 DELEGATE HOGAN: Do you anticipate this wireless application
39 being a big part of the last mile in Southside?

40 MR. DERISO: It very well could be. The big difference, as you've
41 seen from the presentations of Southwest, is that we're not fortunate to have a BVU in
42 Southside, and we'd like to have that capability, and BVU is the last mile and the high
43 capacity stuff. The problem in Southside is that we just don't have that last mile

1 infrastructure buildout as far as fiber to the home and all the different ways to do this.
2 For the limited amount of funding that is available there's other options being pursued.

3 DELEGATE HOGAN: We've been involved where we are in
4 bringing the wireless thirty or forty miles with a couple of towers to get from where they
5 can get on the fiber to where our business happens to be. When you look at a project like
6 the Mendota project, and a similar application in Keysville for a larger area and our
7 infrastructure costs are there. That is a fraction of what went into Mendota. The hookups
8 are perhaps about a third of what that would be. This is an 800-megahertz site, and there
9 are issues involved with that. In the application in Southwest, where does that work, and
10 where does the fiber work, and are the people providing wireless, is that a big part of the
11 Southside project? There are at least three that I am aware of, and they may not be the
12 same three you're talking about. Are we taking a look at that in Southwest, and how are
13 we making sure that --- but if we can light up an area three to five mile radius with the
14 technology that I'm familiar with, and that is not line of sight, how good is it, and our
15 business is pretty good, but I just wonder if that is something we need to look at, or is
16 that as cheap?

17 MR. FLANARY: We're talking to a couple of them, and one of
18 them is an ISP operator in one of the towns that has a wireless system, and they can be
19 fed off the backbone. We're doing the same thing, and in certain applications that is a
20 good interim solution. So we're getting fiber to the homes, and the answer is yes.

21 MR. ELSWICK: Mr. Chairman, it comes down to this, if you want
22 faster Internet, then wireless works great, but full cable and video is not. That's the
23 reason it fits some situations and others it does not. Back to E-58, there were four things
24 that you wanted, and one of them was fast Internet, wireless will do fast Internet, and
25 reliability. Wireless is reliable to some extent, and there are some limitations. Wireless
26 could easily do all three, but the fourth thing is conversion to video, telephone and the
27 Internet. Wireless has not been quite up to doing that. There is Internet service, and then
28 there is service.

29 DELEGATE HOGAN: Is that something we ought to be taking a
30 look at, what the Commission could do to, how do we provide video voice-over IP
31 telephone? The capital costs and installations go up, I think it is a fraction of what fiber
32 is, but is that something that we should be looking at?

33 MR. DERISO: I think the big question you have to ask yourself is
34 what are we really trying to do in Southside? They are not an open access network, they
35 are serving the customers, and they provide voice, video and data and the revenue. The
36 question is whether it is the Commission or someone that uses this new backbone
37 network that you put in to get cheap access to the Internet. If you're looking at the
38 private sector to go ahead and provide the type of service, such as the wireless or some
39 type of competitive, we're not trying to be the cable company or the phone company.

40 SENATOR WAMPLER: Mr. Chairman, reliability and security are
41 two of the issues on the wireless, particularly the last mile application for business. I'm
42 sure technologies will improve and we will overcome a lot of that. Being a small
43 business person, and I'm trying to say I think we looked very closely at leasing as much

1 of the equipment as we can rather than buying it. I've got a couple of computers, and
2 technology is changing so fast, we better be careful how we allocate the dollars.

3 DELEGATE HOGAN: So far we've been very fortunate. I don't
4 want people breaking into my bookkeeping, and we're reasonably paranoid. We've also
5 got a bunch of processing computers on-line that if you tap into that you can make our
6 sawmill run backwards. We're at least at this point content that we have adequate
7 security and that we can protect that. One of the reasons I did it was that it was really fun
8 and nice to have but wanted to find out the real life application and whether this actually
9 would work for us and not what somebody told me. I agree with Senator Wampler that
10 we go ahead real carefully and look at these options, both in Southside and Southwest,
11 and don't run fiber to places that we don't have to. It's thirty thousand dollars a mile, and
12 if we can use this wireless application, we just have to be careful.

13 MR. HUDGINS: The bottom line is to enable the private sector if
14 they come to the table with a wireless solution so you can let the free market determine
15 where the last mile is going to be. A seven hundred mile project there is not going to be
16 one overwhelming technology that is going to dominate and fits every community. Our
17 goal is to provide that interstate to the wireless company or wire line or microwave or
18 somebody that has fiber to the home project. Let the private sector free marketing
19 determine what is the correct solution and let the competition determine what that
20 solution is going to be. I think the key is affordable access to the business place, and the
21 private sector can determine that. And we have to remember what Chairman Hawkins
22 said, how do you get entrepreneurs to change and take risks, start the wireless companies,
23 and that sort of thing.

24 MR. DERISO: A very aggressive regional CLEC plays in the Tier
25 Three or Tier Four market in the rural areas. I had a meeting with them yesterday, and
26 we're working on what I would call a partnership agreement where they have customers
27 in Southside screaming for their services. They cannot serve them affordably. This is a
28 great example of a price book that they had last week. The difference in the issues, and I
29 will explain that. From Roanoke to Washington, DC they can have a DS-3 circuit fully
30 connected to their networks, and that will cost them a thousand dollars a month. If they
31 want the same circuit or the DS-3 to South Boston from Roanoke, that would be five
32 thousand per month a circuit. The big issue is what is happening in Southside. They
33 have thirteen DS-3's currently that overlap our existing network. He said when you all
34 get ready to go and you have your plans and if we can get a fifty percent discount to
35 serve these communities we'll open up sales offices and take away a lot of business
36 customers. It is the private sector realizing the value of this, and that shows the initial
37 interest that we have had.

38 We have talked a little bit about the revenue on this thing. We're not expecting
39 the Commission to fund us, MBC, throughout its days, and we feel this can be a project
40 that stands on its own. I think we all say we are not looking for a handout, but we need
41 some get-up-and-go support so we can get this thing running. I did some real general
42 assumptions back-of-the-napkin kind of stuff just to give you some kind of idea of the
43 revenue prospects that are within Southside. The problem with a lot of these

1 communities is that they have not done any type of broadband aggregation or any
2 assessments for us to figure out what the total circuits are. MBC does not have the
3 dollars to do that for them, though. There was a community that went through this
4 process and between one hundred twenty and one hundred seventy-five thousand per
5 month for the existing aggregated broadband demand that is in this one town. You figure
6 just a small percentage of that is just continuing to increase revenue. We have some basic
7 assumptions, and that is one DS-3, which is a forty-five megawatt circuit per county. We
8 will assume that within each of these fifty-six industrial parks we will have one ten-
9 megabyte ethernet connection. We also have other sites, including the hospitals and
10 community colleges, outside of the industrial park area. And there are twenty-one of
11 those throughout our network. We will have one long haul carrier using our
12 OC-48.

13 Here are the numbers, twenty counties at twenty-five hundred dollars a month,
14 fifty-six industrial parks, a thousand dollars a month and twenty-one sites. You can see
15 how this adds up if you look at that middle column per month, and the far right is the
16 annual revenue for those numbers. If you look at one per county and one per industrial
17 park, then we're already pulling in 1.8 million dollars a year to cover the operational costs
18 and our marketing costs and every other cost. We're very confident that as this network
19 continues to build up and as we are turning up circuits and as we are getting customers
20 that we are going to be covering our operational costs, and those are just some numbers
21 to consider.

22 Revenue achievements to-date. MBC has actually deposited a check that was
23 not related to the Tobacco Commission. We received a grant from CIT to help us with
24 grant writing and development projects that we are doing for Southside. We are actively
25 pursuing lobbying at the federal level for additional funds for network extension and
26 support. We have had several meetings with our congressional delegation, and we're
27 trying to make them understand what we are trying to do, and that also includes the
28 strong Virginia delegation we have in the House of Representatives and our senatorial
29 efforts. We are actively pursuing additional grant money to help reduce the cost of this
30 build-out and ongoing implementation. We are also pursuing private funds for some
31 operational support. One of the interesting things that the vendors that we have been
32 talking to is for non-profits and for community type networks, and they provide
33 equipment. They provide anywhere from one to two percent of our purchase order price
34 into a separate fund. You can look for sixty to eighty thousand dollars that would be set
35 aside by our equipment vendor to be used by MBC. If MBC wants to go to a trade show
36 where there are potential customers and CLEC customers and we'd like to have a booth,
37 then instead of going to the Commission and asking for several thousand to help sponsor
38 this, we basically go to the equipment vendor and say out of that fund we need seven
39 thousand to go to this conference, and they pay it for us. It is a way to use private funds
40 and outside funding sources to do what MBC needs to do to make this successful.

41 Pricing issues. Twenty percent doesn't make sense, because it's still too high,
42 fifty percent discount for wholesale services makes it great. The DS-1, and we call them
43 T-1's for customers. Twelve hundred here, six hundred in Richmond. They have flat rate

1 prices for their customers, and we would discount that wholesale price. If a customer
2 orders a T-1 we would provide it to our private company at two hundred dollars per
3 month per customer. Then they turn around and charge that customer, depending on what
4 bells and whistles they put on that T-1, anywhere from four hundred to six hundred
5 dollars per month. So the folks that use that in Southside we can go down to better levels
6 than in some of the major metro areas. As we cross latta boundaries, and as you cross
7 boundaries you have additional fees. What we are doing with the Southside network, this
8 seven hundred mile network, you're riding our network, and yes, we are crossing latta
9 boundaries, but we are not charging extra to do that, and we are not a local exchange
10 carrier. We have a great deal of benefit when we compete with people like AT&T that
11 provides that service. I would mention that AT&T would be a customer of ours, and
12 Sprint would be a customer, and Verizon would be a customer.

13 DELEGATE HOGAN: How realistic do you think that is? I mean
14 those people actually using this network?

15 MR. DERISO: We have been in discussions with Sprint for a
16 redundant path using dark fiber within our network. I know they were out with the
17 Internet for a couple of days because of fiber cuts somewhere. If somebody is out of the
18 Internet because some fiber is cut somewhere, that certainly is a big issue. I know
19 Verizon has a policy about not using other people's networks. There have been
20 discussions and conversations about the fact that they are trying to change that, but we'll
21 see how that plays out.

22 MR. HUDGINS: But the intent was there.

23 MR. DERISO: It is amazing what competition does.

24 DELEGATE HOGAN: Verizon has a policy, I believe, of not doing
25 that.

26 MR. DERISO: The goal of this pricing issue is that, we're trying to
27 make it affordable for carriers and customers. We are non-profit, and we're not trying to
28 make a profit, but we want to cover our operational costs and do these types of things.
29 Driving this project and driving competition down here we have to make it affordable for
30 carriers, because if we don't do that and we're offering twenty-percent discounts we will
31 solve nothing. Then nobody will want to come to Martinsville or Danville or South
32 Boston and provide services, and if that doesn't happen we have done nothing, and that is
33 why we're trying to make it affordable.

34 MR. OWENS: What is the guarantee that they will pass these
35 services on?

36 MR. DERISO: Market-based competition. One of the companies I
37 talked to they have to buy an existing circuit today, if they do they buy the T-1 circuit, six
38 to seven hundred dollars, and then they charge that customer an additional fee to help
39 their margins. When they are going into a new market and trying to establish a foothold
40 they would be crazy if the existing T-1 price is twelve hundred a month to offer it for a
41 thousand dollars. If they come in using our backbone network and are able to offer it for
42 five or six hundred a month they own that market. So that's what we feel will happen.
43 Businesses are looking for the lowest cost to get the most bang for their buck. If the

1 revenue is not there they are not going to stick with somebody because they are more
2 expensive, price is going to drive a lot of these decisions. We are also going to have the
3 ability to offer educational discounts. There are a lot of discounts and different networks
4 out there that have these programs in place. We're not trying to compete with those
5 offerings, but we are looking to be a complement to those educational networks and be
6 able to use MBC.

7 I now want to talk a little bit about our connectivity outside the region. We
8 don't want to have an island of technology within our twenty- county area. It doesn't do
9 you any good to have a ten-gigabit backbone network when it is not connected to
10 anything. We have capacity to Tyson's Corner, Washington, DC, where the large Internet
11 pop is with many carriers, Raleigh/Durham, Greensboro, Roanoke and Richmond. We're
12 looking to lease capacity and/or dark fiber depending on how the pricing comes back,
13 and ADESTA is working on that for us.

14 DELEGATE HOGAN: Are you planning on leasing the Tier One
15 access or is ADESTA going to lease it?

16 MR. DERISO: MBC would lease that or the contract would be with
17 MBC.

18 MR. HUDGINS: If we want to get rid of ADESTA, we want that
19 transition.

20 MR. DERISO: The Southwest connections, we're going to show, or
21 it's going to talk about how do we connect the Southside to Southwest? We've got a big
22 gap. We're not looking to take a ten or twenty million-dollar cable and trying to take it
23 over the mountains. We've got some existing resources we're going to get into, and I'll
24 show you how you can do that.

25 This is a map that shows the different, the EDA and the ADESTA piece of this
26 project. I'm going to get a better map for the Commission Staff, and it will show the
27 overall project and hopefully with some timelines.

28 DELEGATE HOGAN: When will you have that?

29 MR. DERISO: Probably get it to you by the end of the week. The
30 highlighted portion here is the Southside network, the black is showing some general
31 lease capacity. I'm not going into the remote connections or the Eastern Shore
32 connections, those are separate funding pops that the Commission would not be involved
33 in funding. That's part of our overall vision, trying to provide some robust connectivity
34 to the region.

35 The next map is going to show the Southwest, and this is not really as clear as
36 it should be. The black is our MBC projects that will be funded and are funded to build
37 out our network. The black right here is partly Cumberland Plateau. The Lenowisco
38 network is on the Southwest side. In the red that is the three million- dollar EDA grant to
39 build additional fiber to connect the network. The idea is to go from Claypool Hill to
40 Bluefield, there is an industrial park around Bland County, and I forget the name of it
41 right offhand. It's around this general area where the purple fiber connects to. The green
42 is additional fiber that Bristol has. This would be built from Wytheville down to Rural
43 Retreat. The purple is the fun part and that is one of my clients, Citizens Telephone

1 Cooperative in Floyd, Virginia. They are an independent rural telephone company, and
2 they are funded by the RUS and other groups. They have cable, and they do the triple
3 play, and they are a very aggressive rural telephone company. They have built a very
4 large fiber network within their territory. They're building an additional two hundred
5 sixty strands of backbone cable to connect to various exchanges. They service this basic
6 area with local telephone service, and they are a competitive carrier. They buy cable
7 franchises, and they provide services for that, and they upgrade it. Their focus is strictly
8 in the rural communities. They have a fiber today that is in a small community south of
9 the mountains, and there is a ten mile link that will go to Stuart. They are willing to build
10 that with their own funds to get through Stuart to interconnect with us. This is another
11 area where they have two routes, and I think it is called Five Mile Mountain, and it's right
12 here at the Blue Ridge Parkway, and they have fiber there and also down the road. We
13 could partner and build additional fiber, or we could just go across the mountain and hit
14 their network. As we're doing this we're able to connect within their network and either
15 swapping fiber or leasing fiber by a cooperative agreement that we will have. Their fiber
16 is all the way into the Blacksburg, they call it a zero manhole right outside campus.
17 There are some other carriers within this area. This purple is non-highlighted and that is
18 the fiber that is there today that is already in place ready to go.

19 SENATOR WAMPLER: I have great difficulty understanding what
20 it is you propose to do.

21 MR. DERISO: What we're going to do is connect, this is our
22 Southside network, and we're going to have dark fiber strands that we will lease and have
23 some kind of arrangement to connect up with the Southwest network. We want to be able
24 to connect our fiber together, which means that our equipment will be able to
25 communicate together. If you are in Wise County and you want to communicate with
26 somebody in Petersburg, Virginia, it's a simple process of part of your traffic flows on the
27 Lenowisco network.

28 SENATOR WAMPLER: Are you proposing we fund that for you?

29 MR. DERISO: We don't know, because all of this is in place, and
30 we're talking about a fiber swap, so there'll be no capital involved in this connecting
31 between these two networks.

32 SENATOR WAMPLER: Do you have that under contract?

33 MR. DERISO: No, that is in a negotiated state.

34 SENATOR WAMPLER: Not to be argumentative, but this is
35 theory?

36 MR. DERISO: It's theory inasmuch as Joe Gallery, the General
37 Manager, has been very interested in working with us on this project. They want to get to
38 Stuart, and they want to get to Martinsville with different services, and this is a way they
39 can do that.

40 DELEGATE HOGAN: Is this of benefit to BVU and Lenowisco?
41 Do the folks in Southwest find this to be of some benefit, maybe or not really?

42 MR. FLANARY: No, we fully intend to have connectivity with
43 them.

1 DELEGATE HOGAN: Why is it of benefit?

2 MR. FLANARY: It's another connection to the world. I think our
3 connectivity to the west is important to them as well.

4 MR. ELSWICK: What we are basically doing is creating a mini-
5 Internet.

6 DELEGATE WRIGHT: You mentioned that in Southside you
7 wanted that connectivity.

8 MR. DERISO: This little red line, that's what EDA wants to fund.
9 They are adamant that the networks in Southwest and Southside have to communicate
10 with each other, that would be a big regional network.

11 DELEGATE HOGAN: All right, we don't have to spend any money
12 on that right now.

13 MR. DERISO: The next step is to get with vendor selections,
14 preliminary design documents should be coming in soon, cost estimates as we continue to
15 develop the network design. We have kept our Board apprised of what is happening this
16 week and what is happening next week, and we'd like to start sharing that with the
17 Commission Staff and anyone else that is interested in learning about what is happening.
18 That is basically all I have right now.

19 DELEGATE HOGAN: Before we do that, Carthan, do you want to
20 give us an update on where we stand?

21 MR. CURRIN: Mr. Chairman, I want to give my thanks to many of
22 the folks behind me and those from Lenowisco and Bristol Utilities, Cumberland Plateau
23 and Mid-Atlantic Broadband. We met here yesterday afternoon. We requested that
24 MBC, that they meet and start talking about, because we're ultimately going to connect
25 these two projects. I appreciate them taking time out of their schedules to make that
26 happen.

27 Mr. Chairman, I'll be brief. I wanted to bring you all up-to-date on where we
28 are as far as grants that have been awarded to-date that is before you. The distribution
29 status is before you as well, and I understand there might be a slight change of that
30 because of some vouchers that may have come in since this was prepared.

31 DELEGATE HOGAN: I understood that Lenowisco, Bristol and
32 Cumberland had drawn some more. Has Mid-Atlantic drawn some more as well?

33 MS. WASS: Not, probably as of a week ago, it may be in the
34 pipeline.

35 MR. CURRIN: The grant status and the field offices may have
36 some vouchers that are pending and have not gotten up to my attention yet. These may
37 be slightly different. The financial summary, or just a short history for everybody of how
38 we proceeded from fiscal year '02 to this date. Let me make one comment about that.
39 The Commission as a matter of policy has never decided to put the total amount of
40 money that it wanted to spend in Southwest or Southside in one fiscal year. That doesn't
41 mean you can't do it, and I would remind the Committee that in fiscal year 2000 the
42 Commission, as a matter of policy, put eighty percent of its funds toward indemnification.
43 This reflects what we have spent to date and committed with regard to these two

1 projects. Technology funds that are currently available, and our fiscal year begins today,
2 so the 8.9 million dollars is in this year's Technology budget that was approved at the
3 Commission meeting in May in Danville. From our perspective, the majority of those
4 funds will be for the Southside project, and those funds take effect today, July 1, which is
5 the day our fiscal year begins. That concludes our update. If anyone has any questions
6 I'll be happy to answer them.

7 DELEGATE HOGAN: Does anyone have any questions? Let me
8 see if I have this right. We have five million dollars that we carried over from E-58 that
9 went into the Southwest projects as of the Longwood meeting last fall, and that was
10 money we had. When we got our allotment in April of this year we put together, or we
11 took two million that we had left over from Southside, and put that together with four to
12 five million dollars in this budget?

13 MR. CURRIN: Yes.

14 DELEGATE HOGAN: So that is committed to match the EDA
15 funds, more or less?

16 MR. CURRIN: Yes.

17 DELEGATE HOGAN: When that proposal was made, the total
18 project at that point was six million dollars to match the EDA funds and another seven or
19 eight million dollars to do the rest of it, which was the proposal we had in front of us at
20 that point, and we went in there and we came up with this 8.9 million to finish this
21 project. Because that is what we were told that we needed, and that is the commitment
22 we made. Now, my question is, how did we get from that to twenty million? We don't
23 have twenty million bucks.

24 MR. DERISO: I understand.

25 DELEGATE HOGAN: We made a commitment when we did this
26 project, and we've been down this road, and we weren't just going to match EDA, we
27 were going to cover the rest of this network, and we did. We had a proposal in front of us
28 to do that in terms of thirteen or fourteen million dollars from the Commission, and we
29 came up with it, and now I want to know why is that not adequate to do what we need to
30 do? We've got a problem here, and maybe I don't understand it, but come October, 2005,
31 Mr. Kelly and Mr. Flanary and some other people are going to be back here for their next
32 set. If we do what has been laid out, we're kind of, and as far as the Southwest and far as
33 good faith, and Senator Wampler and Senator Puckett made commitments to fund this
34 project when we got together, but that's as far as it goes. We need to do this project
35 within the boundaries we set up. What has changed in the last three or four months that
36 makes these numbers not add up anymore?

37 MR. DERISO: I'm trying to remember, and maybe somebody can
38 help me out. As far as the nine million that was said could do the rest of this project, was
39 that before the RFI was released from the Tobacco Commission?

40 DELEGATE HOGAN: Let me try this again. We had a proposal
41 from you to the tune of twelve or thirteen million dollars, plus the six million from EDA,
42 to do this whole network. I think we took that in front of the Full Commission in January
43 and it was approved.

1 MR. CURRIN: You're saying you think that it was originally
2 eighteen million to build out?

3 DELEGATE HOGAN: Of which six is from the EDA, and we're in
4 for twelve or thirteen, and I don't remember the exact numbers. We had five or six, and
5 we had to put that together with another six or seven, which we got from next year after
6 rearranging the budget to accommodate this thing, and I thought we had this thing taken
7 care of, or that was the problem that was presented to us. That's the problem we tried to
8 solve, or we thought we solved, but what has changed?

9 MR. DERISO: I think the issue is that at that meeting that you had
10 the RFI responses, and it was us and the Looking Glass Network, and we submitted the
11 two proposals. We had one approach, which was to build out this fiber optic network, a
12 hundred and forty-four strands. At the time we had 3.35 million dollars within EDA
13 funds. Our proposal was different from the Looking Glass proposal. We did not have
14 active electronics, OC-192 and all these different operations and maintenance things. We
15 felt that to build the backbone and the dark fiber and ours was a more simplified project
16 to actually put it in. The business plan we had at the time was that we would go in and
17 we would establish a pop at an industrial park, and the carrier will come in, and they will
18 put a cart in, and they will light the fiber, and they will manage that fiber and manage the
19 circuits and provisions. Looking Glass had a different proposal, where they said we're
20 doing it cheaper, but we're leasing fiber throughout most of the network, and we're
21 lighting it with an OC-192, and we're going to have all this high speed bandwidth
22 connectivity, and we're not going to have any connectivity up to Washington, DC. We'll
23 have this fiber that we identified, but we kind of don't own it.

24 DELEGATE HOGAN: We didn't order either one, we came back
25 and said you all work this out and put it on your RFI and you manage the network, and
26 you came back with a proposal and said twelve to thirteen million bucks.

27 MR. DERISO: Right.

28 DELEGATE HOGAN: Of which we already had six. I'm not trying
29 to be difficult, but has anything changed, or what's different from what we said when we
30 awarded that proposal and came up with the funds to fund it? Is that where we are, or is
31 that not where we are? Right now are you saying you need more money to do what you
32 said you were going to do for thirteen million bucks?

33 MR. DERISO: I'm trying to remember the timeline of how that
34 happened, because when we came to you all, we got together with Looking Glass and
35 said you all come back to us with a joint proposal, you said you liked parts of this
36 proposal and liked parts of that proposal.

37 DELEGATE HOGAN: It was the RFI.

38 MR. DERISO: That's where these numbers came from. It was the
39 resubmitted proposal with ADESTA at the time, that's the ADESTA proposal that was
40 received January of this year and which we presented to the Committee, and it was
41 between Looking Glass and ADESTA, and ADESTA had a better price and a much more
42 robust system.

43 DELEGATE HOGAN: We approved the funds to do that, and that

1 was 12.8 million.

2 MR. DERISO: No, it was fifteen, I have the breakdown. We have
3 the different parts of this network. The engineering and construction for the backbone
4 network, which is basically the fifty-six industrial parks, and we listed in the RFP, and
5 that was 9.7 million dollars. The optional sites, which are Averett College, Halifax
6 Regional Hospital, Longwood University, the Institute, all these non-industrial park sites.
7 The total price for outside plant and electronics was 1.244 million dollars. The
8 electronics to light the OC-192, the backbone rings on the network, that's 3.5 million
9 dollars, just for the electronic costs. We have our network operation center, which zeroed
10 out because ADESTA will do it themselves with their own money, and then we have
11 operations and maintenance costs, which is sixty-one thousand dollars per month. This is
12 when it is all completed, and it provided twenty jobs in Southside for this, and that would
13 make it ninety-four thousand dollars a month. It is around two hundred thousand a
14 month once this network is complete in the first part of 2006.

15 The request we have on the table is 15.1 million dollars, and that includes all
16 of the fiber buildout, all of the electronics to light that fiber, and I think about five
17 hundred thousand for operations, up to and when they are completed, because as we're
18 building this we're turning up circuits and we're providing customers, so we're not
19 waiting till the end to receive revenue, and we have some money built in for operational
20 costs, and that is what that request is. The additional five million dollars, which brings us
21 to twenty, not only the additional. What I am trying to look at is to make sure that MBC
22 operates and that it is a viable entity going forward. We have 2006 and 2007, that is
23 going to be two full years of operational costs. What I want to make sure of and that you
24 all are aware of is that as we build this, and if for some reason people don't come to this
25 network and we have some issues of revenue or we are not able to cover our operational
26 costs, I want to make it crystal clear to this Committee and to this Commission and
27 knows that there is a nut out there of two hundred thousand dollars a month that MBC
28 has to cover. That's covering twenty some odd people down in Southside. I hope never
29 to use it, and I hope we don't need it, and I hope I can come to you and say you've given
30 us fifteen million dollars to build the network and we only need thirteen because we got
31 such great revenue coming into our project, but I can't guarantee that. I want to make
32 sure you all are aware that that situation exists, or that is the situation we might face.

33 As far as the other operational cost that we have, that includes the lease
34 network capacity up to Tyson's Corner, Greensboro, I think that's thirty thousand dollars a
35 month when you add it all up.

36 DELEGATE HOGAN: Let me try this again. What we committed
37 to, and I think what you can count on us for, is what we said we would do, which is about
38 fifteen million. Beyond that we've made no commitments.

39 MR. DERISO: Correct.

40 DELEGATE HOGAN: I think I'm speaking for the Committee, but
41 not only did we not make that commitment, but we can't make any commitments because
42 we don't have the money.

43 MR. DERISO: That's correct.

1 DELEGATE HOGAN: We're going to do what we said we're going
2 to do, and we're counting on you all doing what you said you were going to do, and
3 beyond that, you know, that's where we are. We flat don't have the money, and I can
4 assure you that Mr. Kelly and Mr. Flanary and some of these other folks are going to say
5 once we get beyond this piece and we've given them five million dollars and you're
6 asking for about fifteen, they are coming next, and they've got a bunch of projects. Good
7 faith they're going to get to go next. If we've got some problems here we need to deal
8 with it. Am I ahead of myself here, or does anybody else want to hop in here?

9 DELEGATE BYRON: You're saying, or the picture as I remember
10 it when we were at Longwood, I don't remember hearing a proposal as much as it would
11 be nice to ensure the economic viability of this proposal. You said you would be able to
12 do X with the dollars that came.

13 MR. DERISO: That's correct.

14 DELEGATE BYRON: But monthly you're saying if you don't get
15 your operational costs or get this or that that there could become a problem, and that was
16 not part of the proposal. We just in good faith had a contract or a proposal that you
17 would build the project for.

18 MR. DERISO: That is correct.

19 DELEGATE BYRON: I think that is what we're all thinking. I'm
20 surprised you're standing before us so soon looking for more money.

21 MR. DERISO: We would not need that five million-dollar fund for
22 several years, until 2006. What I'm trying to get across to the Commission is yes, it's part
23 of our grant request, but that five million dollars is almost like a little security fund. I
24 want to make you all aware that our plan in 2006 and 2007 for that eventuality, but we're
25 probably not going to need it. I just want to make sure you're all aware of that. What I
26 don't want to do when the network is completed and for some reason we have five
27 customers on a network and we're making forty thousand a month and we're a hundred
28 and sixty short, I don't want to have to come back and say, well, we kind of need, we
29 need some additional money to help us cover this monthly cost. You were looking at
30 other sources to do that, and I just felt it was important for the Committee and the
31 Commission to understand that there is that cost out there.

32 DELEGATE BYRON: Did you say you were already building in
33 Petersburg?

34 MR. DERISO: Currently in design.

35 DELEGATE BYRON: What is that cost running?

36 MR. DERISO: That is ADESTA, and I can't remember how we set
37 it up, but we're using some of the initial funds from the EDA to help pay for that. That's
38 cashflow in and out for us, and twenty-five thousand dollars now, and I think the next
39 month will be like fifty thousand. The heavy construction and heavy budgeting will not
40 start until the August and September time frame.

41 DELEGATE HOGAN: I offer this to the Committee, and see what
42 you all think. We scraped up the money to do this fifteen million. What I would say is
43 that beyond that this Committee probably will not do any more. I don't know what other

1 folks feel about that, but I don't see how, just to come up with fifteen million we had -
2 maybe Southside, you may want to take this back in front of Southside Economic
3 Development, but in terms of what we have to do to meet the Technology Committee's
4 obligations in this area and to work with the folks in Southwest that we are we obligated
5 to do, I think we're probably done right here. Maybe other folks want to say something
6 different, and I don't know, but we're counting on you to do not just the red lines but the
7 blue lines on this chart for what we said and in light of what you said you'd do for what
8 you said you'd do it for. Beyond that I'm sure we can make no commitments. We can't
9 allocate it out of the year's, and I think that's where we are.

10 DELEGATE BYRON: The money that you were talking about, did
11 you mean to say borrowing from the EDA money, or is that another piece you're working
12 on?

13 MR. DERISO: Correct, because we don't have funding allocated for
14 ADESTA, even though we agreed to do this project, we don't have a formal award.

15 DELEGATE BYRON: Is that part of EDA's reason?

16 MR. DERISO: No, ADESTA is separate from the EDA funded
17 piece.

18 DELEGATE BYRON: So you're allowed to do that? Borrowing
19 from the money, but that does not have any reflection on whether or not those funds will
20 come out short later.

21 MR. DERISO: We have the EDA budget, we have five hundred
22 thousand budgeted for contingencies as well as the Danville project, and we saved capital
23 expenses of three hundred thousand. In essence, we're eight hundred thousand under
24 budget before we even started. I'm not really worried about any issues with EDA not
25 being able to meet those funds.

26 I want to make sure we're all on the same page when we talk about this fifteen
27 million dollars. Is it the Committee's understanding that that fifteen million dollars is
28 separate from the EDA funded portion of this project?

29 DELEGATE BYRON: I was aware of that, that's why the question
30 came up.

31 MR. DERISO: Sure.

32 DELEGATE WRIGHT: The question is still out there. What
33 happens if you don't have the customers to make it profitable? As we said, we can't make
34 any commitment ourselves to fund that part of it. Do we understand there's a chance of
35 building something that will fall, pay for it to be built, and then if it doesn't have the
36 customers you say that it fails?

37 MR. DERISO: It will not fail, but what will happen is, or if you
38 take the worst case example, we don't meet our revenue numbers and we're not able to
39 pay ADESTA, and they are not able to pay their people, if that part falls apart, it is still an
40 asset. What happens if MBC becomes dissolved or there is any kind of financial
41 problems, that asset goes back to the Commission. You can't manage the asset, but you
42 direct somebody to do something with that asset.

43 DELEGATE HOGAN: Maybe we'd get Bristol Utilities to run it for

1 us.

2 MR. DERISO: When you look at this, I worked for a rural
3 telephone company, and any project always has a risk, and that's part of the way business
4 is. We try to take calculated risks, and we try to do this the most efficient way possible.
5 We're very confident with ADESTA as our partner, who has done it before and who has
6 made tons of monies for their customers, that it is going to be successful.

7 DELEGATE HOGAN: You said it is an asset, we're paying for
8 something, and EDA is paying for some of it, and that contract needs to cover that if this
9 project doesn't have the customers and we get our asset back.

10 MR. DERISO: Yes.

11 DELEGATE HOGAN: Then we need our asset back, we really
12 don't want it back, we want this to work, and we want you to make money. This contract
13 needs to include that asset coming back to this Commission.

14 MR. DERISO: I believe that is in there.

15 MR. STEPHENSON: It does, to the extent permitted by Virginia
16 law, and to the extent that EDA will allow that. Yes, we get our claim on that asset. Mr.
17 Chairman, I might be able to help share a little bit here. I spent about four months
18 reading about four years' worth of proceedings around this event, and the file is very
19 thick. One of the things I had trouble with was trying to find a definition of precisely
20 what configuration MBC was going to do and precisely what that cost is. There have
21 been many different configurations and many discussions about prices and costs and all
22 the numbers that you mentioned. I know I saw those in the file. I'll tell you that the
23 applications you got in the mail a couple of days ago, to my reading of the file, is the first
24 definitive price and configuration that has been placed before the Commission over
25 somebody's signature. I think there were some estimates, some suggestions and things,
26 but this is the first time they have actually been defined. And, there is some considerable
27 sticker shock involved in the fifteen million number that you see before you.

28 DELEGATE HOGAN: The twenty bothers me and not the fifteen.

29 MR. STEPHENSON: Right, what I understand Tad to be saying is
30 that the twenty, or the extra five, is in the interest of disclosure today to be sure that the
31 Commission understands that that is out there, not needed today and may never be
32 needed, but it is important that that be disclosed at this point before you go any further.

33 MR. DERISO: Right, I think part of this, the big question is that
34 MBC is going to have some operating costs. We're trying to manage the project and
35 market the project, and there are costs associated with it. That is why we are pursuing
36 additional funding, because we realize it is very difficult for the Commission with the
37 budget that you have to fund this entire project and everything that MBC will need. After
38 pursuing this funding we're hopeful that we will be successful, but there are some dollars
39 involved in marketing this network. We worked out a deal with ADESTA where the
40 original proposal, we were paying them ten thousand a month for marketing and any
41 expenses their sales people would have. What we did is that we abolished that and said,
42 if you are as good as you say you are you're a hundred percent commission. Any circuit
43 you sell or any person you bring into this network, you'll get a ten-percent commission on

1 that net revenue or gross revenue the first year. The second year it goes to eight, and the
2 third year it goes down to six. Their incentive is to add more and more customers on this,
3 because as the customers signed up they get a larger percentage of commissions.

4 DELEGATE HOGAN: You've got a plan to get this network
5 running by January of '06, which is a year and a half from now.

6 MR. DERISO: Correct.

7 DELEGATE HOGAN: You may want to take a look at that and say,
8 you're going to have to keep marketing this like everybody else does. You may want to
9 take a look at all that, because I can tell you right now, I'd be amazed if we scrape up a
10 dollar more than we have already committed to this project. If you're telling us you're
11 going to need another five million, I guess what I'm trying to say is I'm letting you know
12 we don't have another five million, and you're going to have to make it work with what
13 you've got.

14 MR. DERISO: Understood.

15 DELEGATE HOGAN: Because we're not going to have five
16 million extra. We're just not going to have it. I don't know if we need to make that in the
17 form of a motion, but does anyone want to comment on that?

18 DELEGATE WRIGHT: Mr. Chairman, I believe that by having this
19 grant proposal before us, if we don't take any action we'll be at where you say we are
20 committed to, that's what we intended to do.

21 MR. STEPHENSON: My understanding, Delegate Wright, if we
22 take no action today, the EDA funding piece, which you have already approved, and that's
23 already put to bid, that's underway, but the balance of the project will have no funding,
24 because you're not approving funding for the balance of the project.

25 DELEGATE WRIGHT: Mr. Chairman, what motion do we need to
26 fund this?

27 DELEGATE HOGAN: That's a good question.

28 SENATOR WAMPLER: Mr. Chairman, I want to ask a couple of
29 people different questions. The first comment I want to make is that I support this
30 project, and I want to find a way to make it work, but my concern is, can we build it to
31 the specifications that you deem you need and the market will receive within the budgets
32 that we put together. That's the only reason I'll ask the following question. If it would be
33 appropriate, Mr. Chairman, I would like Stephane, and I know all of us had
34 conversations, but would someone tell us what we have approved previously and where
35 are we now in terms of commitments of cash from this Commission?

36 MS. WASS: This project expended four million dollars from the
37 Technology Fund, two million from Southside Economic Development, that is approved
38 to-date. Currently the Technology Fund has available, after this morning's approval, .55
39 available in cash with an anticipated 8.88 million this coming April.

40 DELEGATE HOGAN: With the April deposit.

41 MR. CURRIN: Our fiscal year begins July 1, and the monies don't
42 come to us until April.

43 SENATOR WAMPLER: Fifteen and a half is what this project

1 would have at its disposal with the 8.8 in April. Now, I'm not sure I understand. You say
2 you have planned for hard cash needs of fifteen million dollars, and your application is
3 for twenty million dollars. The question goes back to what our Chairman asked, you
4 won't be able to build this entire network?

5 MR. DERISO: We can build the entire network for fifteen million.

6 DELEGATE HOGAN: We had a motion in addition to what we
7 actually approved, we had a motion last January, the Full Commission will commit to
8 build this project out to the tune of that proposal of fifteen million. That is all we have
9 been committed to do. We had committed to finish for fifteen million, and that's all we
10 committed to.

11 SENATOR WAMPLER: Then I don't get what the discussion is
12 about.

13 MR. STEPHENSON: The fact that it is fifteen million dollars in
14 addition to the twelve that has already gone into the project, after which you would --

15 DELEGATE HOGAN: -- No, it's not. Fifteen million dollars, six of
16 which has already been committed. It's another nine, and that is it.

17 MR. STEPHENSON: That's not what the request is.

18 DELEGATE HOGAN: This one, or the one we looked at in
19 January?

20 MR. STEPHENSON: The request before you today.

21 SENATOR WAMPLER: It's twenty million dollars, as I understand
22 it. Mr. Chairman, let me revise my question. The Staff tells me we have committed in
23 hard cash fifteen and a half million dollars if that April payment comes in from the MSA.

24

25 MS. WASS: We have committed six million to-date.

26 SENATOR WAMPLER: We're taking action for the Full
27 Commission for us then to have an amount allocated to serve this project.

28 MR. CURRIN: Most of this year's Technology budget goes toward
29 the Southside project.

30 DELEGATE HOGAN: We had a motion, and I think the
31 Commission voted on it, and that's assuming we get the money through the MSA.

32 SENATOR WAMPLER: I don't mean to take us back a step, but if
33 we approve the 8.8 million on 22 July, would MBC still need another twenty million, is
34 that what you're telling me?

35 MS. WASS: No, fifteen.

36 SENATOR WAMPLER: My question then goes back, you need
37 twelve million additional dollars to build this network?

38 MR. DERISO: No, we will need as of today fifteen minus 8.8.
39 We'll need an additional 6.2 in addition to the 8.8 we have today. That's 15.1 to build out
40 the entire network, the non-EDA portion.

41 SENATOR WAMPLER: Mr. Chairman, the question then becomes,
42 I believe, what is on this map that you cannot build without those additional dollars?

43 MR. DERISO: If we only had 8.8? We would scale it down, we

1 would not include some counties. We would look also at the potential for the revenue
2 and try to do as much as we could with the resources we had.

3 SENATOR WAMPLER: Mr. Chairman, I think that is what it comes
4 down to. What do we have to do within the budget that we have? I'm just trying to make
5 sure we can build what the heck it is that we need to do for the region.

6 DELEGATE HOGAN: The question I have, in January we're going
7 to take a look at this, and we had a commitment to build this network, both blue and red,
8 for a total of fifteen million from Tobacco Commission money. The fifteen plus six from
9 the EDA, that was going to build this thing. Now we're anteing up another ten million
10 dollars that we don't have and I don't think we're going to have. So I'm trying to figure
11 out what happened.

12 MR. DERISO: That was my question earlier, if everybody was clear
13 about the fifteen being separate from EDA? We've got some yes's and maybe some no's
14 now.

15 DELEGATE HOGAN: Let's take a look at the Minutes from the
16 January meeting.

17 MR. FERGUSON: Mr. Chairman, Tad, as I understand it, so far
18 there has been twelve million dollars committed and been allocated for this project?

19 MR. DERISO: That's correct.

20 MR. FERGUSON: Six million from the Commission and six
21 million from EDA?

22 MR. DERISO: Yes.

23 MR. FERGUSON: The fifteen million or twenty million is in
24 addition to those dollars?

25 MR. DERISO: That is correct.

26 MR. FERGUSON: In addition to the twelve. So what I'm trying to
27 get clear, and I understand this twenty million will be the worst case scenario. The five
28 million, which is the difference between fifteen and twenty, is there some scaling back of
29 the project that will have to be done, as you understand now?

30 MR. DERISO: No.

31 MR. FERGUSON: So that five million, or the difference between
32 fifteen and twenty is just, you need to know that if things go bad it could cost more
33 money.

34 MR. DERISO: Correct.

35 MR. FERGUSON: But right now the projection is fifteen million
36 dollars more is needed than has currently been given to the project, either from the
37 Commission or from EDA?

38 MR. DERISO: Correct.

39 MR. FERGUSON: Of that fifteen million there is some 8.8 million
40 in this year's budget that would be available potentially for that, which then gets us down
41 to about 6.2 or 6.3 million, which I take it is where the discussion is now, is that correct?

42 MR. DERISO: Correct.

43 DELEGATE HOGAN: We've got an RFP that you were awarded on

1 this, and I think I know what it says, but maybe we could go back and take a look at that.
2 MR. HUDGINS: I like the term clarity. When we issued that RFP
3 the Tobacco Commission had its Virginia Tech representative in that RFP process, and it
4 was designed to accomplish the goals that the Commission set out. That is that every
5 county would be treated equally. That was the guiding principle of that RFP. That was
6 published and advertised in various papers up and down the East Coast. We had fifty-
7 three responses to the RFP. Many people responded to the RFP. Five of those were
8 deemed worthy to actually go into the math, and we were looking for a turnkey process
9 as everyone responded to the RFP. ADESTA was chosen because of the lowest price.
10 This money or the process has been over two years in the making from the time we
11 started all that, and it never changed. The cost has continued to decline in the telecom
12 industry. Senator Wampler, you'll remember that meeting we had with that big round
13 table, seventy million dollars. That was originally what went on. Virginia Tech came
14 back with their report, and it was a hundred forty million. The market place has
15 responded to that RFP, and it says fifteen million we can accomplish the goal connecting
16 everyone of these towns and communities, and that process has not changed, and that
17 number has not changed. I don't know why the misunderstanding has occurred. Virginia
18 Tech, or your technology representative, was in on the selection, and absolutely all of us
19 agreed that this was the best and cheapest proposal that the free market and private sector
20 produced and can't be done cheaper. We did not specify what technology that the private
21 sector would bring to the table. We gave a list of specs, saying this is what we want to
22 do, this is what we want to accomplish, give us your ideas of how best to accomplish that
23 at the least cost. We chose the least costly proposal, and that number is 15.1 million
24 bucks. If you guys want to cut the cost, I can cut the cost, absolutely. If you start
25 trimming back some of these different counties like Sussex, you can't touch the red lines,
26 that's federal, but if you give me the latitude to delete some of these long-distance
27 counties because it's not Bristol Utilities or a compact area and it's not Lenowisco, three
28 counties. It's seven hundred miles, twenty-some counties and three cities. So, Mr.
29 Chairman, give me the direction.
30 SENATOR WAMPLER: How much cash are you putting in the
31 deal?
32 MR. HUDGINS: Are you talking about MBC?
33 SENATOR WAMPLER: Yes, my question to you is how much cash
34 are you putting in on the deal?
35 MR. HUDGINS: Zero.
36 SENATOR WAMPLER: Therein lies the point, Mr. Chairman.
37 MR. HUDGINS: But the risk factor --
38 DELEGATE HOGAN: -- Hold on a minute, David.
39 SENATOR WAMPLER: Very respectfully, this is the point to
40 illustrate that you have to leverage other sources of dollars, and Bristol Virginia Utilities
41 has indebted themselves and me as a taxpayer within that community, I'm well aware of
42 that. I'm well aware of what it takes financially to back up the loans that we talk about or
43 that they are involved in. This is kind of the growing pains that you get into because it is

1 hard to expand all the way, especially for my area. There are only so many places you
2 can get these dollars and these grants and leverage funds to do these projects.

3 DELEGATE WRIGHT: I think we're getting off point here. Is there
4 a proposal that the Staff has gotten with specific numbers and details? This should be
5 handled between the Staff, and do we have a legal contract signed?

6 DELEGATE HOGAN: No, that's still pending, and the details are to
7 be worked out. We have signed no contract. My understanding is the project has
8 changed to the tune of six million.

9 MR. HUDGINS: No, this project hasn't changed. ADESTA made a
10 proposal, and we reviewed the proposal, and we reviewed the numbers. We all got
11 together and reviewed it, and that was the numbers a year ago. We did the RFP, and that
12 was the numbers they said were necessary to fill the goals and objectives that we put on
13 the RFP. The numbers have not changed.

14 MR. MONTGOMERY: Did you say you do not, or more than likely
15 would not need the five million or six million?

16 MR. HUDGINS: Correct.

17 MR. MONTGOMERY: If you don't have the customers, you don't
18 need the five million.

19 MR. HUDGINS: Correct. If we don't have the customers, we don't.
20 We do believe the customers are out there, though.

21 MR. MONTGOMERY: Sort of a rainy day fund. It is a long-shot
22 contingency, the five million? We could take the asset back.

23 DELEGATE HOGAN: That could happen.

24 MR. HUDGINS: Anything is possible.

25 MR. MONTGOMERY: If it doesn't happen, then the money, we
26 would not need to put up the money, the five million.

27 MR. HUDGINS: As you know, costs are incurred. The
28 Commission will incur costs one way or the other. Assets can be taken back if necessary.
29 If you consider the fiber in the ground and ADESTA, if this network goes as is planned,
30 and if the contracts are signed in tune with the customers, all this is legal, a legal
31 obligation. However, we must have a revenue stream coming from the customers, that's
32 the end result. Without that we don't have anything. We hope to have the revenue
33 stream.

34 MR. FERGUSON: Leaving aside the extra five million, and just a
35 point of information today. I guess it's the 6.2 million roughly, that's sort of what people
36 have some questions about. Is that something that would be needed in the coming fiscal
37 year?

38 MR. DERISO: We need to get those funds, the eight million,
39 sometime in April of next year. We calculate ADESTA from January of '06.

40 MR. FERGUSON: You're saying in April of next year. So anything
41 beyond April of next year would be that 6.2 that is being discussed?

42 MR. DERISO: Yes.

43 DELEGATE HOGAN: Can the Staff fill us in on that?

1 MR. STEPHENSON: As I understand it, EDA put up six, the
2 Tobacco Commission put up six, and that's a total of twelve. That got the E-58 piece
3 funded. That money is in-hand. The red line on the map, that's all been approved by the
4 Commission, money in the bank for us to meet that obligation. In addition to that now,
5 comes MBC asking for fifteen, and 8.8 of which is in the budget for this fiscal year.
6 Carthan is out of the room right now, but I think I remember that when the budgetary
7 process was running the question came up how much money did we need in the
8 Technology budget to get the ADESTA piece funded only for that year, and that's why the
9 approximate 8.8 showed up in the budget to cover the cashflow for that year. That leaves
10 6.2 for another year.

11 SENATOR WAMPLER: Total cost of the project is twenty-seven to
12 thirty-two million?

13 MR. STEPHENSON: Of which six comes from EDA.

14 MR. FERGUSON: To clarify further, Ned, is the potential there for
15 further EDA funding for the blue line, or has EDA given all they are going to give?

16 MR. DERISO: MBC cannot be the recipient of any additional EDA
17 funds.

18 MR. FERGUSON: Now, or in the future?

19 MR. DERISO: Seventy percent of all funds in a fiscal year have to
20 go to non-EDA recipients.

21 MR. HUDGINS: Seventy percent of all the federal funds for new
22 projects, let me just tell you this. There's a lot of envy across the country on this grant. I
23 can't tell you, I know I get two calls a week from other rural areas asking how in the
24 world did you get six million from EDA on this grant, how does that process work? We
25 don't have any kind of overhead. If you want this project, if you're telling me that this
26 8.8 is it we will have to make some hard decisions. If you want this project to be done
27 cheaper, then that's another thing.

28 DELEGATE HOGAN: I understand, David, I think we all do. But,
29 let's get back to the question of what funds we have already allocated to this project, and
30 we've done that with a fair amount of effort, and we are being told now that, how is this
31 project different from what it was three or four months ago? You're telling us, or are you
32 telling us there is a cheaper way to do it? I can tell you right now we don't have that six
33 million. If you're saying you can't meet the RFP that we agreed to with the funds that are
34 available, we've got a problem.

35 MR. HUDGINS: We do, sir, because the ADESTA proposal is what
36 it is, that is public information, and it passed through the Commission, and that number
37 of fifteen million is in the proposal.

38 DELEGATE HOGAN: But that includes the six million to match
39 EDA.

40 MR. DERISO: The RFP identified the portion of this project, that
41 list includes, that's got the EDA funds. You have to remember you have to build
42 Riverstone, that's on the E-58 list. This route has, the electronics is another aspect of it,
43 and the RFP made that clear. EDA already funded a portion of the project. We are

1 looking for a turnkey project.

2 DELEGATE HOGAN: Just a point of information, does anyone
3 need to check out? Why don't we take a short break and then we'll come back and finish
4 up.

5
6 NOTE: A recess is had, thereupon the meeting continues,
7 viz:

8
9 DELEGATE HOGAN: Let's go back in session. I don't know if
10 we're going to resolve this issue today, but I would say this, and maybe I'll ask someone
11 to make a motion. That we direct Staff, in conjunction with the representatives of MBC,
12 to bring forth some suggestive remedies, which I hope would include other sources of
13 funding and/or what you can do with what we've got, between now and probably the 19th
14 of July, and give us a chance to look at those. The next Commission meeting is the 22nd
15 of July. By the 21st of July could you all come forward with something to address this
16 issue, and we will look at it, either the night before or the morning before the next Full
17 Commission meeting and see what you can come up with. I would encourage you to
18 look at other sources of revenue pretty quickly, because this is a problem. So I would ask
19 somebody to make that motion.

20 DELEGATE WRIGHT: I so move.

21 MR. OWENS: Second.

22 DELEGATE HOGAN: All in favor? (Ayes.)

23 SENATOR WAMPLER: You say revenues, capital contributions to
24 the deal.

25 DELEGATE HOGAN: That is right.

26 SENATOR WAMPLER: Other revenues would certainly help.

27 DELEGATE HOGAN: I misspoke, other sources of capital. A
28 proposal to do with what we do have, in addition to whatever else you might be able to
29 come up with.

30 MR. DERISO: As far as the Commission's policy, like loan
31 guarantees, if we come up with that as a remedy is that something that we could in theory
32 do, or have you all done that before?

33 DELEGATE HOGAN: I think that is something that could be
34 explored, but the problem with that is that when you make a loan guarantee the last time I
35 checked you have to have capital to back it up and require us to commit, even if it wasn't
36 drawn from 2007, which we can't do, we really can't do that, even if we wanted to, I think
37 we couldn't do it.

38 MR. FERGUSON: The problem is constitutional debt restrictions.

39 DELEGATE HOGAN: Yes.

40 MR. DERISO: Would the Committee be willing to give us some
41 guidance as far as if we are scaling this project down?

42 DELEGATE HOGAN: We're going to object to that, and I can tell
43 you that right now, but give it your best shot. You can make a case and go back and look

1 at this thing. I remember asking very specifically what's the total cost and does it include
2 the money we have given to EDA, and the answer I got was yes, something around the
3 sum of fifteen million. I'll ask the Staff to check and see in the Minutes if they can find
4 that. Tim, if you would take care of that I would appreciate it. That has created some
5 problems, because we don't have the money, and we're not going to.

6 MR. DERISO: Would the Commission entertain extending the time
7 line to do this project?

8 DELEGATE HOGAN: I think that probably is perhaps the
9 appropriate thing to look at. I don't remember, I can poke around, and I know people that
10 I have talked to have asked me how long it was going to take to get this thing up and
11 running, and I've said two years or so before it is fully implemented, and perhaps a piece
12 or two we'll do later. Those are the kinds of things you all need to take a look at and
13 come back. I'm sure we'll have a chance to talk about it sometime in the next couple of
14 weeks.

15 MR. STEPHENSON: Mr. Chairman, would you envision having a
16 Technology Committee meeting, if need be, shortly before the Commission meeting?

17 DELEGATE HOGAN: I think we're going to have to, yes. If you
18 would schedule that I think it would be appropriate. Either that morning or the night
19 before, depending on what is going to happen. Probably the night before.

20 SENATOR WAMPLER: Mr. Chairman, to think we can do this in
21 thirty minutes the day of the Commission meeting, I don't think so. We had better set
22 aside some quality time if we have something to discuss.

23 DELEGATE HOGAN: Probably the night before is the appropriate
24 time, we can do it late so people traveling here don't have too much of a hard time, but
25 we need to do it.

26 DELEGATE WRIGHT: Since you mentioned that, it would be good
27 to let us know soon enough so we can make travel plans and so forth.

28 DELEGATE HOGAN: I think the Staff will take care of that. I
29 have got a motion and a second, any more comments or questions? All in favor say aye?
30 (Ayes.) All opposed, like sign? (No response.)

31 The only other thing I think we can handle rather quickly is that we said at our
32 last meeting we were going to have a couple of more people on this Board, from MBC's
33 perspective what needs to be done, get that done.

34 MR. GUY: Good afternoon, Mr. Chairman, my name is Jim Guy,
35 and I'm a lawyer with LeClair Ryan in Richmond. My firm has served as Counsel in
36 organizing MBC. To add to your record is not a difficult process, it requires an
37 amendment to the By-laws, and that can occur by action of the majority of the Board of
38 Directors. It requires notice of a regularly scheduled meeting to do it. Much like any
39 other corporation, it's an amendment to the Bylaws. New directors will be elected by
40 members of the Cooperative.

41 MR. CURRIN: Counsel, are you saying that these two members can
42 be added to the Board?

43 MR. GUY: Yes.

1 DELEGATE HOGAN: I would ask you, given the conversation
2 between this Committee and MBC, and I'll ask you to go ahead and do what you all need
3 to do to take care of that, and perhaps we can have a conversation about the time, but I
4 think we, I don't know what the time frame is, but I'd like to think that we'd have that
5 done before the Full Commission meeting on the 22nd of this month.

6 MR. GUY: It does require at least ten days notice to the Board to
7 call a meeting. Depending on the schedule of the Board members, I don't see why that's
8 not possible.

9 DELEGATE HOGAN: Dave, does that present a problem?

10 MR. HUDGINS: Only the fact that we're in the middle of vacations,
11 you're talking July when a lot of people are taking off on personal schedules, you
12 included.

13 DELEGATE HOGAN: Would you go ahead and see if you can
14 address that and maybe coordinate with Staff? I think we need to take care of that before
15 the July 22nd meeting.

16 MR. GUY: Mr. Chairman, I can certainly draft the Bylaw
17 amendments and provide notice to the Board and certainly have a scheduled meeting. If
18 it is not possible before that date we can at least have everything in place to show
19 progress toward that objective.

20 MR. HUDGINS: If we're going to have a meeting of the Board,
21 because the first question is going to be why are we meeting and who, and I want to be
22 able to answer that question forthrightly and say there are some good people that need to
23 be added to the Board, and this is why we're going to be meeting.

24 MR. GUY: To be clear we will need the Board to amend the
25 Bylaws, but it is the members who elect a director, so we'll need a Board meeting. The
26 Board at any regular or special meeting may amend the Bylaws, election of additional
27 directors. Then the directors are elected by the members of the Cooperative. So we'll
28 have to have a Board meeting and a members meeting.

29 DELEGATE HOGAN: I think at this point they are one and the
30 same.

31 MR. GUY: For all practical purposes, that is correct.

32 DELEGATE HOGAN: That shouldn't be too much trouble. I'd ask
33 for you all to do that and maybe work with Staff and get it done if at all possible before
34 the July 22nd meeting. Does everybody understand how this Board works? Does
35 anybody feel a need for that explanation?

36 MR. GUY: I can give you that explanation or answer questions if
37 anyone has a question.

38 MR. CURRIN: It might be helpful, Mr. Chairman, if you could
39 send me a summary of the question so I could send it to the Committee so at their leisure
40 they can read it. I know there are certain classifications, if you send me something I'll
41 make sure the Commission gets that.

42 MR. GUY: I'll be happy to do that.

43 DELEGATE HOGAN: Do we have any public comments? Is there

1 any more business we need to take care of today?

2 Do we need to approve the Minutes from last time? Anyone have any
3 additions or corrections? All in favor of approving the Minutes say aye? (Ayes.)
4 Opposed like sign? (No response.) Okay.

5 Then with that, do I have a motion to adjourn? So moved. We are adjourned.

6
7 PROCEEDINGS CONCLUDED.

8
9
10
11
12 CERTIFICATE OF THE COURT REPORTER

13
14
15 I, Medford W. Howard, Registered Professional Reporter and Notary
16 Public for the State of Virginia at large, do hereby certify that I was the court reporter
17 who took down and transcribed the proceedings of the **Technology Committee Meeting**
18 **when held on Thursday, July 1, 2004 at 9:00 a.m. at the Hotel Roanoke and**
19 **Conference Center in Roanoke, Virginia.**

20 I further certify this is a true and accurate transcript to the best of my
21 ability to hear and understand the proceedings.

22 Given under my hand this 19th day of July, 2004.

23
24
25
26
27 _____
28 Medford W. Howard
29 Registered Professional Reporter
30 Notary Public for the State of Virginia at Large

31
32
33
34
35 My Commission Expires: October 31, 2006.